Manitoba

REPORT OF THE PROVINCIAL AUDITOR to the Legislative Assembly for the fiscal year ended March 31, 1991

92-03637/

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Introductory Comments

The Provincial Auditor, by his Act, is required to report annually to the Legislative Assembly on the work of his Office and whether he received all the information and explanations he required. In reporting to the Assembly, he is also required by his Act to report anything he considers significant and of a nature that should be brought to the Assembly's attention.

We have prepared this report to meet these requirements. It completes the accountability cycle for the resources provided for the work of the Office. It also provides information to the Members of the Legislative Assembly and the public on the work done by our Office and on the results of our work. We include matters that we consider warrant the attention of the Members of the Legislative Assembly. We report these matters in the sections titled Government's Central Management System, Agencies and Departments, Special Audits and Public Accounts. Also, the status of matters previously reported to the Assembly is included.

We also provide comments on the Government's financial affairs in the section titled Public Accounts. This section includes comments on trends in the Government's financial position and operating results. We also provide, as exhibits, the Government's financial statements and our attest audit opinion on the statements.

In addition to our regular ongoing attest and compliance work, we select operations to audit as project audits that we determine warrant reviewing and reporting to the Assembly. In selecting these audits, we consider matters that could be of concern to Members of the Legislative Assembly and the public. We report situations where operations were satisfactory as well as situations that require improvement. Our audits are conducted in accordance with public sector auditing standards and accordingly include such tests and other procedures as we consider necessary in the circumstances.

We summarize the more significant concerns and recommendations in the section titled Summary of Concerns and Recommendations. It is important to note that much of the audit work completed during the year did not identify matters requiring reporting to the Legislative Assembly.

We describe the approach we take in carrying out our work in the section titled Organization and Activities of the Office and in Exhibit 2, Scope of Audit and Reporting Procedures. The section titled Organization and Activities of the Office focuses on the activities of the Office for the year just completed. Exhibit 2 provides general information on our role and mission.

We are pleased to report that we received all the information and explanations we required in the course of our work.

INTRODUCTORY COMMENTS

It is with a real sense of personal loss that we note the passing of two former members of the Office. W. K. Ziprick, a long time member of the Office and previous Provincial Auditor, died on July 12, 1991. R. B. Mayer, also a long time member of the Office and its previous Executive Director, died on October 10, 1991. Both made significant contributions to this Office, government operations generally and to their communities. Both are missed.

We wish to express our appreciation to ministers, chairpersons, officials and staff of departments, public bodies and grantees for the cooperation and assistance they provided during the course of our audits.

We would like to thank the Members of the Legislative Assembly, the media and the public for their support, assistance and understanding.

Finally, I would like to express my appreciation to my staff for their continuing effort and support during the past year.

This is the last annual report that I will be presenting. It has been an honour and privilege to have served as Provincial Auditor of Manitoba. The responsibilities have been challenging, demanding and interesting. It has been particularly satisfying to have been able to work with so many fine individuals dedicated to serving the people of Manitoba.

Summary of Concerns and Recommendations

New Matters

The new matters included in this section are those that we consider to be the more significant. These matters are cross-referenced to the pages in this report that provide further comment.

Management Practices

This year, several of our recommendations relate to improvements which are required regarding management practices.

We audited the management practices within certain departments and agencies and observed areas where opportunities for improvement exist. These audits included:

- Department of Finance - Taxation Division
- Department of Justice - Headingley Correctional Institution
- Department of Health - Brandon Mental Health Centre
- Society for Manitobans with Disabilities Inc.

Our audits compared management practices in these departments and agencies with the standards for management set out in the Management Practices Guide issued by the Government of the Province of Manitoba. There are a number of recommendations for each of these operations. This is a matter that generally requires significantly more attention.

Department of Finance - Taxation Division (page 52)

Our audit report recommended that a number of improvements be made to the management practices within the Division. We recognize that the Division was working to improve its management practices as a result of a divisional review conducted in 1989. Our recommendations relate to improvements still needed at the time of our audit.

Our recommendations included:

- that the Division continue with efforts to improve its planning practices and to implement a proactive planning process;
- that a systematic approach including a detailed needs assessment be developed to identify and priorize the areas for policies and procedures development;
- that the Division review and improve its division of duties in the collections area, Mining and Use Tax area and Taxpayer Services Group;
- that management improve communication within the Division;

- that the Division review its documentation practices to assist staff with their work;
- that the Division review its security requirements and issue appropriate policy directives;
- that the Division review its management reporting system with a view to enhancing reports produced;
- that the Division take steps to ensure that management is exercising effective control over operations;
- that the Division work to develop appropriate performance appraisal policies and to implement an appropriate appraisal system; and
- that each functionalized branch of the Division develop a training and development plan which should be supportive of planned objectives.

***Department of Justice - Headingley Correctional Institution* (page 77)**

We noted several opportunities for management at Headingley and the Corrections Division to improve their management practices.

We recommend that Headingley:

- initiate appropriate action to develop a role and mission statement, and the Division complete the needs assessment;
- formulate priorized long-term goals and objectives for each of its operating areas;
- prepare an appropriately detailed mid-term plan;
- clearly identify current issues and needs, identify key results and measurement criteria for each objective;
- staff prepare agendas and minutes for regular management and staff meetings;
- develop a systematic process to identify policy development needs;
- arrange to have all management positions filled on a permanent basis;
- reassess the progress it has made in implementing the Employee Performance Management system;
- reassess the information requirements of each manager and establish appropriate reporting and information collection systems accordingly; and
- initiate a process to critically review all aspects of its operations with the goal of improving efficiency and effectiveness, as well as reducing overall costs.

Department of Health - Brandon Mental Health Centre (page 66)

Overall, we were satisfied that the practices, policies and procedures used by the Centre were adequate to ensure accountability for, and protection of, public funds. During our audit we noted opportunities for the Centre to improve its operations.

We recommend that:

- the Mental Health Division continue with its recent efforts to improve its planning practices;
- consideration be given to reorganizing the Centre's management staff;

- the Division continue with its efforts to recruit a Financial Officer and fill the position of Quality Control Coordinator as expeditiously as possible;
- the Division complete its audit of the authority and reporting lines between itself and the Centre as soon as possible;
- the Centre's management personnel be assigned a much more active and participatory role in the budget processes of the Centre;
- regular performance appraisals be performed for the Centre's senior management staff; and
- the Mental Health Division, in conjunction with the Centre, clarify the policy to be used by the mental health centres in the area of undesignated donations.

***Society for Manitobans with Disabilities Inc.* (page 34)**

We noted that the Society is working towards an improved organizational structure and establishing adequate systems, procedures and practices to provide accountability and protection of public funds. We concluded that there are opportunities for improvement.

We recommended that the Society:

- use tendering procedures whenever practical;
- in addition to developing a formalized conflict of interest policy, carefully review purchases from a particular company;
- strengthen its documentation practices for the recruitment and selection of staff and for employee classification/reclassifications;
- develop a plan to deal with the issue of pay equity for certain staff classifications and
- review the salary levels of certain positions.

Collection of Accounts Receivable

The collection of accounts receivable is a matter which appears in several sections of our report. Action is required to bring about a more effective approach to the collection of accounts receivable. Recommendations for action appear in five different sections of this report. They appear in the Government's Central Management System section - Central Direction and Monitoring of Departmental Accounts Receivable and in three places in the Agencies and Departments - New Matters section: Department of Finance - Taxation Division, Department of Education and Training - Manitoba Student Assistance and the Canada Student Loan Program and the Department of Labour. This concern also appears as an unresolved issue in the Status of Previous Recommendations - Agencies and Departments - Department of Justice. Clearly, this matter requires more attention.

Central Direction and Monitoring of Departmental Accounts Receivable (page 15)

We reported that in order to improve the overall accounts receivable situation and Finance's monitoring function, officials needed to draft appropriate, revised, government-wide policy and procedures for accounts receivable. It is almost complete.

We recommend that the Department complete the revised policy and procedures and submit them to Treasury Board for approval and implementation as soon as possible.

Department of Finance - Taxation Division (page 52)

In our audit of the Taxation Division, we reported that in order to assist in effective, timely collection of accounts, the taxpayer liability needs to be established as soon as practicable.

We recommend that the Division review the policies, practices and procedures involving the establishment of taxpayer liabilities and the recording of taxes receivable.

We also reported on the inadequacy of the staffing level for the Manager of Collections. A senior collections manager position is needed to provide the expertise to optimize cashflow and minimize bad debt losses. With the number of staff involved in the collection process, human resource management is critical. We found that the position was not classified at a level which would attract personnel with the necessary qualifications.

We recommend that the Division assess the staffing level of this position to ensure it is filled with an appropriate level of expertise.

In addition, we observed that the division needs to have an appropriate process in place for the ongoing, formal review of the effectiveness of collection practices and procedures.

We recommend that a formal evaluation system be developed which would effect a regular assessment of collection procedures and practices.

Department of Education and Training - Manitoba Student Assistance and the Canada Student Loan Program (page 40)

Our audit of the programs identified opportunities for improving the information on accounts receivable statements for the Manitoba Student Assistance programs.

We recommend that the Branch revise the format of the accounts receivable statements so that the outstanding status of loans is clear.

Department of Justice (page 150)

We previously reported that court management strengthen control over outstanding fines and costs by implementing a receivable system.

We recommend that the Department implement a fines and costs receivable system in the courts as soon as practicable.

We also observed that management should improve control over personal property deposit accounts.

We recommend that the Department proceed with the proposed control system revision to reconcile the monthly deposit accounts to a control total on a timely basis.

Department of Labour (page 85)

Our audit of the Department of Labour identified that the Department does not have adequate control over accounts receivable relating to Pressure Vessels, Boiler Inspections and Elevator Permits.

Our recommendations were that controls over accounts receivable be strengthened and that the Department improve collection efforts on outstanding receivables.

Office of the Chief Electoral Officer (page 13)

Our audit of the Office of the Chief Electoral Officer identified the need for the Legislative Assembly to improve its review of the operations and reports of Elections Manitoba.

We recommend that the Standing Committee of the Assembly on Privileges and Elections review the recommendations included in the 1988 Elections Manitoba annual report and review current annual reports on a timely basis.

Divestiture of Manitoba Data Services (page 16)

Our audit of the compliance with terms of the divestiture agreement disclosed that improvements are required to achieve adequate monitoring of controls in place at Manitoba Data Services to ensure accurate and complete processing of information and appropriate safeguarding over confidentiality of data.

We recommend that Treasury Board Secretariat officials work with all Government users to fully understand their requirements and arrange for appropriate follow-up.

Manitoba Water Services Board (page 25)

We audited two areas of the Board's operations: construction contracts and expense claims. Our audit of contracts identified opportunities for improvement in the areas of planning, contract tendering and controlling, including project reporting, setting of standard hourly rates and offers of construction.

We also observed areas of concern in our audit of expense claims. We recommend that the Board consider alternative, economic methods to reduce the number of trips to Winnipeg.

Department of Northern Affairs - Native Affairs Secretariat (page 90)

Our audit of the Secretariat's organization function identified the need to improve this function. Our report includes recommendations that responsibility be specifically assigned for the implementation of the grant accountability procedures and that the Secretariat work with the Management Services Branch to develop a process to evaluate how it meets its objectives.

Our audit of the Secretariat's grant accountability policies, practices and procedures identified the need to make significant improvements to achieve an appropriate level of accountability for its grant operations. Our recommendations were that the Secretariat develop the appropriate policies and procedures to establish program priorities, assess program options and evaluate the effectiveness of its grant programs.

Matters Requiring Further Attention

We previously identified the following concerns and recommendations as being more significant. They require further attention.

Consolidated Fund Financial Statements - Reservations In Our Attest Audit Opinion (page 106)

We have reported 4 reservations in our attest audit opinion on the Government's Consolidated Fund financial statements. Reservation 1 concerns the recording of an emergency disaster amount receivable from the Government of Canada which is not supported by an agreement as at March 31, 1991. In our view, the recording of this amount receivable is not in accordance with the Government's accounting policies because the Department of Finance generally does not record amounts receivable from the Government of Canada until a covering agreement is in place. Reservation 2 concerns the Government's failure to record its pension liabilities and the costs associated with the annual increase in the pension liabilities for entitlements earned by its employees, teachers and Members of the Legislative Assembly. Reservations 3 and 4 concern the Government not combining the Fiscal Stabilization Fund and the Manitoba Lotteries Fund with the Operating Fund of the Consolidated Fund for reporting purposes.

We recommend that the Government finalize arrangements with the Government of Canada on cost sharing of its emergency disaster costs. We recommend that the Government record its pension liabilities and the costs associated with the annual increase in the pension liabilities. We also recommend that the Fiscal Stabilization Fund and the Manitoba Lotteries Fund be combined with the Operating Fund of the Consolidated Fund for financial reporting purposes.

We also recommend that the Government work towards recording its fixed assets and other liabilities such as severance pay, sick leave, vacation pay, long-term disability benefits earned and its portion of the Workers Compensation Board's unfunded liabilities.

Accountability for Government Policy Implementation (page 128)

We previously reported that there is a need to strengthen the accountability process to assure Government that its policies are implemented and carried out.

We continue to recommend that the Government consider establishing an accountability process with appropriate reporting and monitoring to ensure significant Government policy decisions and initiatives are appropriately implemented and carried out.

Untendered Contracts (page 140)

Section 44(1) of The Financial Administration Act sets out the requirements for reporting untendered contracts. Last year, we identified that the legislation needs to be clarified as to what is intended by the term "public tender", which agencies are subject to this legislation and what is intended by the terms "making information available to the public". Further, we identified that policies and processes for gathering and reporting information on untendered contracts should be documented in the Financial Administration Manual and the General Manual of Administration. We also recommended that the Department of Finance Coordinator follow up on missing reports.

Improvements have been made in following up missing reports and consideration is being given to the other matters. We again recommend that these matters be given appropriate consideration.

Public Accounts Committee (page 137)

We previously made recommendations which we believe would increase the effectiveness of the operations of the Committee. These recommendations include: meeting on a more timely basis; requesting officials from Government departments and Crown agencies to appear before the Committee to answer questions raised by Committee members; developing a working agenda; and providing questions to be raised at Committee to respondents in advance of the Committee meetings.

We again recommend that these suggestions be considered by the Committee. We also recommend that the current Committee Chairperson continue to work with the Minister of Finance to explore ways to increase the Committee's effectiveness.

Crown Agency Accountability to the Legislature (page 132)

We previously recommended that the Government strengthen Crown agency accountability to the Legislature. The Government has taken action to improve accountability for a number of Crown agencies. However, responsibility for monitoring and evaluating the other Crown agencies, including those in which the Government has only a partial interest, needs to be clarified.

We recommend that the Government give further consideration to strengthening Crown agency accountability to the Legislature for all Crown agencies.

Fiscal Stabilization Fund - Reservation in our Attest Audit Opinion (page 153)

The Government obtained shares when it disposed of its interest in Manfor Ltd. The shares were deposited to the Fiscal Stabilization Fund. We reported that the shares valued at $77,638,700 are not an asset of the kind that can be used for the purposes of the Fund at this time to stabilize the fiscal position of the Government. We noted that there is some confusion on the part of the readers of the Fund's financial statements as to the amount of assets available for use for the purpose of the Fund.

We recommend that a valuation allowance of $77,638,700 be recorded against the asset value in the financial statements of the Fund to appropriately reflect this situation.

Classification of Trust Funds (page 152)

The Government classifies certain operating type funds as trust funds. This is being done in accordance with legislation establishing these funds or for banking and investment purposes. However, certain of these funds do not meet the criteria of a trust fund because a fiduciary trust relationship does not exist. We previously reported that the more significant of these funds were the lottery trust funds, the Mining Community Reserve Fund, the Fires Prevention Fund and the Victims Assistance Fund.

The Government has taken significant positive steps regarding the lottery trust funds. The Manitoba Lotteries Fund is now included in the Operating Fund and reported in departmental Estimates. The only concern remaining is that the balances remaining in the trust fund are not combined with the Operating Fund for reporting purposes.

We recommend that the Government review the funds in the Trust Section of the Consolidated Fund. We recommend that those funds that do not meet the criteria of a trust fund be combined with the Operating Fund for reporting purposes. To assist with this process, we recommend that the Government consider amending legislation that establishes these funds as trust funds.

Matters Considered Significantly Improved

We are unable to report this year that any matters previously identified as being more significant are resolved. We are only able to report that a number of these matters are improved:

- Review of Legislative Assembly Offices (page 137)
- Overtime (page 135)
- Estimates (page 133)
- Financial Management Information Systems (page 134)
- Internal Audit (page 134)
- Public Trustee's Office (page 143)
- Workers Compensation Board (page 144)

While a number of other matters have been resolved or significantly improved, the Government has not been able to act on many of our more significant concerns and recommendations. We realize that several of these matters are difficult to deal with and may take considerable time to resolve.

General Comments

The size and complexity of Government requires a formal management system to use resources effectively. Responsibility for the Government's Central Management System is vested in Treasury Board. Treasury Board is provided with staff assistance from the Department of Finance, (Treasury Board Secretariat and the Comptroller's Division) and the Civil Service Commission.

For the last two years, the need for improved accountability was the matter most commented on in our reports. We reported last year that the Government was taking positive steps to improve its accountability practices and processes. This year progress in implementing our remaining recommendations in this area has been slow. We realize that several of these matters are difficult to deal with and may take considerable time to resolve.

Last year we recommended that the Government develop an action plan to deal with the matters reported. We continue to emphasize the need for such a plan. The plan should identify the officials responsible for implementing the improvements as well as the resources required. This would demonstrate commitment to resolving these matters.

Again this year, several of our recommendations relate to improvements which are required in the area of effective management practices. Under the status of matters previously reported, we are pleased to note that the implementation of more effective management practices has resulted in a number of our concerns being resolved or significantly improved.

As an item of continuing concern, we note the increasing accumulated deficit and debt of governments in Canada. This debt and its associated interest costs must be paid by future taxes. The tax loads for our citizens and businesses are already very high. The need for Canadian businesses to be competitive on an international basis is being increasingly recognized. One of the factors which impacts businesses' ability to be competitive is the amount of taxes businesses have to pay. This includes federal, provincial and municipal taxes. All levels of government must consider innovative and practicable ways of containing costs so that the combined tax load on business is such that they can be competitive. Working to further clarify jurisdictional authority, eliminating duplication of effort amongst and within each level of government, and streamlining administrative approaches and practices are necessary to minimize future taxes.

There is a need for the Government to place greater emphasis on results rather than on processes and procedures.

We are pleased to note several initiatives by the Government which should contribute towards emphasizing and measuring program results more effectively. The development of a special operating agency status for the Queen's Printer and Fleet Vehicles

operations, initiatives to improve operations and enhance accountability within the Department of Labour and formal program evaluation within the Departments of Family Services and Health demonstrate a commitment to improve management practices and an orientation towards better measuring of intended results.

We encourage the Government to continue to consider ways of eliminating duplication of effort within its operations and ways of minimizing administrative costs through improved management practices and other means. We also encourage the Government to continue its efforts to put greater emphasis on program results.

Office of the Chief Electoral Officer

Introduction

The Office of the Chief Electoral Officer, commonly called Elections Manitoba, was established in 1980 to oversee the electoral process in Manitoba. In 1985 the Chief Electoral Officer was made responsible for the administration of The Elections Finances Act. As noted in the Elections Manitoba 1989 annual report, the Office of the Chief Electoral Officer "... must be ready at all times to conduct elections and by-elections and to ensure that the annual reporting by political parties, constituency associations and candidates occurs as provided in the Act. As a result, procedures, forms, manuals, guidelines and other materials must be kept current. Assistance is given to candidates, registered political parties, constituency associations and their Chief Financial Officers in complying with the Act. Reports are received and reviewed as required by the legislation and are available for public inspection. The Chief Electoral Officer may also make recommendations respecting amendments to the Act. Prosecutions for offences under the Act and its regulations are also the responsibility of the Chief Electoral Officer."

Objectives and Scope

Recently we completed an audit of the Office of the Chief Electoral Officer. Our objectives were to assess compliance with the requirements of The Elections Finances Act and determine if the Legislative Assembly is reviewing in a timely and effective manner the operations of the Office of the Chief Electoral Officer.

During our audit, we examined prescribed forms, election expense reimbursements and auditor remuneration required by The Elections Finances Act. The documentation pertained to 1990, including the 1990 general election. Also, we reviewed the Elections Manitoba 1988 and 1989 annual reports. The 1988 report includes recommendations by the Office of the Chief Electoral Officer for amendments to The Elections Finances Act.

Observations and Recommendations

1. Compliance with The Elections Finances Act

Our overall conclusion is that the Office of the Chief Electoral Officer is properly overseeing compliance with The Elections Finances Act by election candidates and registered political parties. However, we noted one area where improvement is required.

Section 67 of the Act specifies that, where the aggregate value of contributions from a person or organization is $250 or more, constituency associations must file information returns regarding such contributors within 30 days following the end of the calendar year. However, most constituency associations are filing returns after the deadline. It is important that returns are filed in compliance with the Act and on a timely basis so that public disclosure is not hampered.

We recommend that Elections Manitoba consider the appropriateness of the 30 day deadline. To ensure that constituency associations file annual returns in accordance with legislation, we recommend that Elections Manitoba take appropriate action to enforce the present provisions of The Elections Finances Act or amend the Act.

Comments of Officials

The Chief Electoral Officer considers that the concern may be resolved appropriately in conjunction with the Legislative Assembly reviewing, on a comprehensive basis, the issues regarding constituency associations included in the 1988 annual report of Elections Manitoba.

2. Legislative Assembly Review

Based on our audit, it is apparent that the Legislative Assembly needs to improve its recent practices for reviewing the operations and reports of Elections Manitoba. The Standing Committee of the Assembly on Privileges and Elections has not met to consider the 1988 or 1989 annual reports of Elections Manitoba. Under The Elections Finances Act, the Elections Manitoba annual report may stand referred for consideration by the Standing Committee of the Assembly on Privileges and Elections. Such referral is required if the annual report contains recommendations concerning the appropriateness of either limitations on election and advertising expenses or reimbursements to election candidates and registered political parties. The 1988 annual report on Elections Manitoba includes a detailed review of The Elections Finances Act. The report addresses 14 policy issues regarding the need to recognize changes in the election process and the need to clarify the accountability of Elections Manitoba. Also, the review discusses 8 administrative issues to improve the administrative effectiveness and efficiency of the Act. The report contains several recommendations respecting amendments to the Act,

which have not been addressed by the Standing Committee. Timely action to address these recommendations is important to strengthen the election process in Manitoba and to improve the effectiveness and efficiency of the administration of Elections Manitoba. Lack of timely action may hinder the ability of Elections Manitoba to meet its objectives.

We recommend that the Standing Committee of the Assembly on Privileges and Elections review the recommendations included in the 1988 Elections Manitoba annual report and review current annual reports on a timely basis. The Committee should provide appropriate support or direction for Elections Manitoba to initiate necessary action to implement the recommendations contained in the reports.

Central Direction and Monitoring of Departmental Accounts Receivable

We previously reported to management concerns regarding the central direction and monitoring of departmental accounts receivable. Our concerns related to the timeliness of the reports being submitted by departments, excessive collection efforts on insignificant accounts and central direction required in several areas.

The systems of recording accounts receivable and related collections are of prime importance in ensuring that public funds are appropriately safeguarded against loss and in ensuring that monies owing to the Province are collected on a timely and equitable basis. While monitoring of accounts receivable is a departmental responsibility, due to the sensitive nature of this area, central direction and monitoring is an important control to ensure that the departments' systems are working effectively.

To improve the overall accounts receivable situation and Finance's monitoring function, we recommended that the Department of Finance:

- take a more active role in review, follow-up and use of the reports submitted on Overdue Accounts, and
- issue directives to the departments to provide direction regarding setting the interest rate on receivables to conform to the Financial Administration Manual guidelines and collection activities on written-off accounts.

Department of Finance officials have been working to resolve this concern. Treasury Division has implemented appropriate revised procedures for the review and monitoring of accounts receivable reports from departments. Officials have also drafted an appropriate revised government-wide policy and procedures for accounts receivable. Once the draft is finalized and approved by Treasury Board the policy and procedures will be incorporated into the Financial Administration Manual.

We recommend that the Department complete the revised policy and procedures and submit it to Treasury Board for approval and implementation as soon as practicable.

Comments of Officials

Officials advised that the Department will address this matter as soon as practicable.

Divestiture of Manitoba Data Services

Introduction

Manitoba Data Services Commission (the Commission) was established by The Manitoba Data Services Act on June 15, 1979 to provide electronic data processing services to the Government of the Province of Manitoba and Government agencies. Effective August 16, 1990 the shares of the Commission were sold to STM Systems Corp. under the terms and conditions of a share purchase and other related agreements.

Objectives and Scope

We completed an audit of the Government's processes and procedures regarding its divestiture of the Commission. We concerned ourselves with whether the practices followed enabled interested parties to be aware of the intended privatization and whether the practices gave these parties the opportunity to bid on the sale. We also assessed whether an adequate analysis was carried out and communicated to the decision-makers to provide them with sufficient information to make an informed decision. We did not concern ourselves with the merit of the decision to privatize the entity.

In addition to our review of the Government's divestiture processes and procedures, we conducted an audit of the procedures put into place within the Government subsequent to the sale to monitor compliance with the terms of the divestiture agreements.

Observations and Recommendation

Divestiture Processes and Procedures

We concluded that the divestiture procedures did enable interested parties to be aware of the intended privatization, did provide interested parties with the opportunity to bid on the sale and did provide the Government with an appropriate analysis to make an informed decision on the sale of the entity.

The Government publicly announced in the May 1989 Throne Speech that it would consider selling the Commission. Several divestiture objectives were established. A divestiture committee was formed including the Secretary to Treasury Board and

members of the Commission's Board of Directors with knowledge of data processing and expertise in corporate financial matters. An independent economic valuation of the Commission was obtained. Informational packages were provided to prospective purchasers. The divestiture committee reviewed proposals received and conducted negotiations with prospective purchasers. The divestiture committee compared the negotiated proposals against divestiture objectives and the economic valuation. Cabinet was advised of the status of divestiture proceedings together with recommendations. In our opinion, these procedures enabled Cabinet to make an informed decision.

Compliance with the Divestiture Agreements

We concluded that generally compliance with the terms of the divestiture is being monitored adequately. However, we noted one area where improvement is required.

Monitoring of Controls

We concluded that improvements are required to achieve adequate monitoring of controls in place at Manitoba Data Services (MDS) to ensure accurate and complete processing of information and appropriate safeguarding over confidentiality of data.

Pursuant to the data and processing services agreement which forms part of the share purchase agreement, an audit may be done of MDS procedures as they relate to the services supplied to government clients. An audit by auditors independent of MDS would provide the users of MDS with assurance whether all information is being processed accurately and whether data is being appropriately safeguarded. Certain of the Government users of MDS services have indicated to us that they require such assurance. An audit of controls at MDS has not been conducted to date by independent auditors.

We recommend that Treasury Board work with all Government users to fully understand their audit requirements and arrange for appropriate follow-up.

Comments of Officials

The Director of the Information Technology Review Office of the Department of Finance (Treasury Board Secretariat) indicates that an audit is being scheduled for the second quarter of 1992. Furthermore, the Director indicates that Government users are represented on committees formed to address security concerns.

Divestiture of the Manitoba Public Insurance Corporation - General Insurance Division - Personal & Commercial Lines

Introduction

The Manitoba Public Insurance Corporation (MPIC) was incorporated as a Crown Corporation under The Automobile Insurance Act in 1970. In 1974 the Act was revised and became The Manitoba Public Insurance Corporation Act. Under the provision of its Act and regulations, the Corporation operated an automobile insurance division and a general insurance division. The general insurance division insured such risks as personal property, commercial property, liability and special risk extension coverage.

In July 1990, the Government of Manitoba announced that it had reached an agreement with the General Accident Assurance Company of Canada (General Accident). Under the agreement, the Corporation would discontinue writing policies for personal and commercial property, effective October 1, 1990, with General Accident assuming the right to renew existing policies upon expiry. MPIC's recovery for these renewals consists of 7 1/2% of the gross premiums paid on renewed policies from October 1, 1990 through December 31, 1991. As at June 30, 1991, MPIC had recovered approximately $600,000.

Objectives and Scope

We reviewed the sale of the right to renew The General Insurance Division, Personal and Commercial lines of business. We concerned ourselves with whether the process followed in arranging the sale enabled interested parties to be aware of the intended privatization and to submit a bid for the business. We also considered whether an adequate analysis was carried out and communicated to the decision-makers to provide them with sufficient information to approve the sale. We did not concern ourselves with the merit of the decision to cease writing these classes of insurance.

Observations and Conclusions

We concluded that the process followed did enable interested parties to be aware of the decision to sell the General Insurance Division, Personal and Commercial business. Interested parties were provided with an opportunity to bid on the business.

The Chairman of MPIC, with assistance from an external consulting firm, conducted a search for prospective purchasers of the business. In addition to the Minister's public announcement of the intended divestiture, the consultants and the Chairman of MPIC contacted fifty-seven potential purchasers in the industry. This resulted in only one formal offer being received for consideration. Cabinet was provided with the details of General Accident Assurance Company of Canada's offer to purchase the right to renew the

General Insurance Division business. Cabinet approved the negotiated agreement in principle, enabling the Minister responsible and the Chairman to execute the agreement.

In our opinion, the process followed was reasonable and provided decision makers with appropriate information regarding the offer to purchase the renewal rights.

Review of Specific Expenditures

Introduction

We reviewed the following types of expenditures:

- computer expense
- professional services expenses
- courier expenses

Computer expenses are the costs associated with acquisition and rental of data processing and word processing equipment and software, including the utilization of Manitoba Data Services Ltd. charges for facilities. These expenses approximated $29,000,000 for the year ended March 31, 1991.

Professional services expenses are direct payment of fees for service of professional persons contracted for by the Government. Professional services include architectural, accounting and auditing, legal, medical, engineering, consulting, appraisals and land surveying. The total professional services expenditures for the year ended March 31, 1991 was in excess of $28,000,000.

We reviewed courier expenses because of their increasing level, while recognizing they are of relatively low dollar value. The total courier expenses for the year ended March 31, 1991 were approximately $591,000, which is an increase of approximately $125,000 since 1987.

Objectives and Scope of Audit

The main objective of our audit was to determine whether expenditures were made in compliance with Government policy as set out in the General Manual of Administration and other directives. A further purpose was to determine whether the expenditures were made for the purposes authorized.

For computer expenses, we concentrated our audit on individual payments which exceeded $3,500. We audited 113 payment vouchers totalling $1,755,164. Our sample was selected from computer payments totalling $6,900,000.

For professional services expenses, we concentrated our audit on individual payments which exceeded $25,000. We reviewed 110 payment vouchers totalling $7,316,000 or 25.3% of the total professional services expenses.

For courier expenses, we concentrated our audit on individual payments which exceeded $650. We audited 72 payment vouchers totalling $64,550 or 10.9% of the total courier expenses for the year.

Observations and Conclusions

We found that, except for the following matters, expenditures generally were made in compliance with Government policy and were made for the purposes authorized.

Professional Services Expenses

During our audit, we observed that the Public Utilities Board does not tender for professional services. The consultants being hired were originally appointed by order-in-council in 1962 and professional services are rendered without any other formal contractual arrangements. Also, the Board does not have a formal evaluation system in place to determine whether the hours being spent by professionals are necessary to achieve the Board's objectives.

In order to ensure that the professional fees paid are commensurate with the level of service required, we recommend that the Board establish pre-determined job estimates and enter into professional services contracts. Professional services should be tendered on a periodic basis to ensure the rates being charged are competitive.

Comments of Officials

The Secretary of the Board indicated that our recommendations are being reviewed.

In addition, we identified three untendered contracts over $1,000 each for three departments that had not been reported to the Minister of Finance as required by legislation.

We recommend that the Department of Finance Coordinator responsible for the untendered contract system review the requirements for reporting with these three departments. It would also be prudent to arrange for an internal audit of departmental submissions on a test basis to ensure that the process of reporting untendered contracts is understood and complied with by departments.

Comments of Officials

The Department of Finance will review our recommendations.

Courier Expenses

Cabinet issued a directive for the 1986/87 fiscal year that courier service costs were to be curtailed. Total expenditure on courier expenses have increased since that time.

We recommend that the Government provide direction to departments to clarify the current position on the use of couriers.

Comments of Officials

The Department of Finance will review our recommendation.

Brandon University - Internal Audit

We have recommended previously to management that Brandon University establish an internal audit function.

The Administration and Finance area of the University included a request to establish an internal audit position as part of its initial budget submission for this year. However, the Central Appointments Committee of the University's Board of Governors, who review and approve the University's annual budgets, was unable to approve this request. This decision was made in view of the limited financial resources available to the University, and in consideration of other items with higher assigned priorities.

An internal audit function would facilitate the early identification of potential problems, and would assist the University's management by providing systematic and timely reviews of all aspects of the University's operations.

We recommend that the University pursue its efforts to implement an internal audit function. In view of the limited financial resources available, we suggest that the University explore various options as a means of implementing this recommendation. For example, the University could consider the use of part-time staff, staff seconded from other areas of its operations, or private sector expertise as sources for developing an internal audit capability.

Comments of Officials

The Finance and Administration area of Brandon University will continue to request approval and financial support for this function.

Civil Service Superannuation Fund - Reporting

Introduction

The Civil Service Superannuation Board was established under The Civil Service Superannuation Act in May, 1939 and is responsible for administering the Act.

Administering the Act involves collecting superannuation contributions; making and monitoring investments; providing pension and other benefits; and providing other services related to pension matters to employees of the Government of the Province of Manitoba and other agencies designated by the Government.

Objectives and Scope

The objectives of our audit were:

- to assess the integrity of information distributed to individuals regarding the status of their contributions, information about their potential pension benefits and compliance with reporting requirements and
- to assess the timeliness of annual reporting and qualitative content of the Fund's annual report.

The audit included a review of information provided to individuals participating in the Fund as at December 31, 1990. The audit also included a review of the Fund's 1990 annual report.

Observations and Recommendation

We concluded that the contribution information provided to individuals regarding the status of their contributions and information about their potential pension benefits has been faithfully and properly maintained. We also concluded that the reporting complied with the regulations of the Pension Benefits Act.

We concluded that the content of the Fund's annual report was distributed on a timely basis. We also concluded the annual report generally provided appropriate information about the Fund's activities. To improve the qualitative content further, we recommend the annual report provide a condensed financial summary encompassing a number of years.

Comments of Officials

The General Manager stated that he would prepare for the Board's consideration a draft condensed financial summary encompassing a number of years for the Fund's 1991 annual report.

Manitoba Housing and Renewal Corporation

Non-Profit and Urban Native Housing Programs (post 1985)

Introduction

The Non-Profit and Urban Native Housing Programs are Federal/Provincial partnership programs designed to encourage the development and maintenance of a viable non-profit housing sector. In 1986, the Provincial Department of Housing (Manitoba Housing) and the Government of Canada signed the Global Agreement on Social Housing. This

agreement resulted in the transferring of responsibility for the planning, delivery and administration of the post 1985 Non-Profit and Urban Native Housing Programs from the Canada Mortgage and Housing Corporation (CMHC) to the Manitoba Housing and Renewal Corporation (MHRC).

The primary objective of the Non-Profit and Urban Native Housing Programs is to assist households in need who would otherwise be unable to obtain adequate, suitable and affordable housing on the private market. To achieve this objective, the MHRC provides mortgage financing to eligible private non-profit organizations (sponsors) and, in partnership with the CMHC, will subsidize, according to set percentages, the operating losses incurred by the sponsors. In addition, under the Non-Profit Housing Program, the MHRC has constructed and retains ownership of several housing projects. The CMHC will also subsidize a set percentage of the operating losses incurred by the MHRC on its Non-Profit housing units.

As at March 31, 1990 the total value of mortgages held by the MHRC under the post 1985 Non-Profit and Urban Native Housing Programs was approximately $73,500,000. The total value of housing units held by the MHRC under these programs was approximately $51,300,000. The total operating losses accumulated by the sponsors and the MHRC for fiscal year 1990 was approximately $13,200,000, of which $3,425,000 represents the net subsidy incurred by the MHRC.

Objective and Scope

Our audit objective was to determine whether there are adequate management practices and controls at the MHRC to ensure that the post 1985 Non-Profit and Urban Native Housing Programs are delivered and administered in accordance with relevant agreements and guidelines.

We were advised that the MHRC and the CMHC undertook a joint operational audit of the post 1985 Non-Profit and Urban Native Housing Programs. The internal audit group for the Department of Housing, on behalf of the MHRC, lead this joint operational audit. The operational audit covered the period from July 1986 to December 1989. The Joint Audit Report was issued on October 15, 1990. The objectives of the joint operational audit were to determine whether the post 1985 Non-Profit and Urban Native Housing Programs are being delivered and administered in accordance with the program guidelines and the Global and Operating agreements and to identify any opportunities for operational improvements. The audit included a review of management controls, processes, systems and practices relating to planning and monitoring activities, program delivery, portfolio management and financial administration. These objectives encompassed our review objective. The joint operational audit team reviewed a sample of housing projects from each program. Our procedures were limited to discussions with officials and the review of relevant documents including the detailed audit plan, the Joint Audit Report and management's action plan to address the recommendations.

Observations and Recommendation

The Joint Audit Report indicates that there was non-compliance with certain of the administrative requirements specified in the relevant agreements and program guidelines as they relate to the planning, monitoring, program delivery and administration activities. These instances of non-compliance, however, did not result in assistance going to ineligible housing projects or households.

We conclude that there are opportunities to improve management practices and controls at the MHRC to better ensure that the post 1985 Non-Profit and Urban Native Housing Programs are delivered and administered in accordance with relevant agreements and guidelines.

We recommend that the Manitoba Housing and Renewal Corporation continue in its efforts to address the findings and recommendations detailed in the Joint Audit Report.

Comments of Officials

When the Global Agreement with CMHC was executed in 1986, it was understood that until such time as mutually agreed upon guidelines and procedures for the administration and delivery of the programs were fully agreed to by MHRC and CMHC, MHRC would deliver and administer the programs in accordance with guidelines and procedures previously established by CMHC. It was further recognized at the time, by the parties, due to the magnitude of the changes entailed that MHRC would not be able to achieve 100% compliance with the administrative guidelines in the initial years of the agreement.

Since the execution of the agreements, there has been substantial progress made in meeting the administrative requirements, as well as ongoing negotiations between MHRC and CMHC with respect to improving guidelines and procedures for program delivery and administration, anticipated to be finalized in 1991/92. It should also be noted that in each of the years since the new agreement, MHRC has effectively met all program delivery targets.

In the interim, however, MHRC has reviewed the findings of the Joint Operational Audit conducted by MHRC and CMHC and has developed and implemented an action plan to address the immediate concerns raised by the Operational Audit.

Manitoba Water Services Board

Introduction

The Manitoba Water Services Board is a Crown agency established under The Manitoba Water Services Board Act to assist in the provision of water and sewage facilities to the

residents of rural Manitoba. The main objectives of the Board are:

- The obtaining of supplies of potable water for domestic and other uses within the Province and the selling of water to municipalities and water districts.
- The acquisition or construction and the operation and maintenance of all plants and works necessary for obtaining, collecting, storing, treating, purifying, transmitting and distributing water.
- The acquisition or construction and the operation and maintenance of works for the collection, treatment and disposal of sewage.

The Board will occasionally provide engineering services for construction projects but will generally contract out construction work.

We audited two areas of the Board's operations, being construction contracts and expense claims.

Construction Contracts

Objectives and Scope

The objective of our review was to determine whether appropriate project management practices are being followed. Accordingly, our review encompassed certain planning and controlling activities. With respect to the planning activity, we reviewed the budgeting and tendering practices. With respect to the controlling activity, we reviewed the cost and progress monitoring practices, the preparation of construction progress payments to contractors, the recording of these payments in the Board's central records and project information system and the control of recoveries from the municipalities and the Province.

We randomly selected two recently completed projects. On one project (expenditures of approximately $400,000) the Board acted as the general contractor whereas on the other project (expenditures of approximately $2,000,000) an independent engineering firm was appointed as the general contractor. Both projects were substantially complete in the 1991 fiscal year. We also reviewed a sample of well drilling projects. Contract values ranged from $100 to $25,000. On this activity we limited our efforts to a review of the invitational bidding practices.

Observations and Recommendations

We have organized our observations in accordance with the management functions of planning and controlling.

Planning

Budgets for the Provision of Engineering Services

Board staff provide engineering services on selected projects. An engineering cost budget is calculated on the basis of a set percentage of the estimated project construction costs. More detailed engineering cost or activity budgeting is not performed. We observed that independent engineers prepare detailed cost and activity budgets for the provision of similar services. We acknowledge that certain components of these detailed budgets may be on a percentage basis. The lack of a detailed budget may result in unrealistic budgets and will provide little opportunity for cost and activity monitoring.

We recommend that the Board develop more detailed budgeting practices for its engineering activity.

Comments of Officials

The Manitoba Water Services Board provides very little engineering services to municipalities at this time. It is very unlikely that the Board will be able to provide any project engineering in the future.

In the past the Board did provide some engineering services on small projects. Since the dollar amounts involved were small and the projects less well-defined it is difficult to provide the same level of detail as is considered necessary on larger projects.

If the Board is involved in the provision of engineering services to municipalities in the future we will seriously consider the recommendations and attempt to comply with them.

Contract Tendering

Major Contracts

Board policy requires that all contracts with an estimated value in excess of $100,000 be publicly tendered. Prior to the tendering of these contracts, Board or contracted engineers will determine the level of detail desired in the bid and prepare preliminary cost estimates. On the projects we reviewed, Board staff appropriately analyzed the bids against these predetermined estimates and the contracts were awarded to the lowest bidder.

Other Contracts

Board policy indicates that in order to minimize project costs, contracts estimated at less than $100,000 may be solicited through invitational bids. The policy states that a minimum of three qualified contractors should be requested to submit quotations. Our review of the contracts awarded on the basis of invitational bids was limited to well drilling contracts.

Several of the fiscal year 1991 well drilling files that we reviewed did not contain any documentation to indicate whether invitational bids had been requested. We note that the Board's policy manual does not address the subject of waiving invitational bids except for contracts requiring "timely dispatch." We acknowledge that there may be valid reasons for waiving the invitational bid requirement. However, we believe this should be the exception and arise only in unusual circumstances. The lack of policy direction may result in the awarding of contracts for inappropriate reasons.

We also reviewed an invitational bid analysis prepared by Board staff, for the fiscal years 1989 and 1990. This analysis listed the well drilling contracts for which invitational bids were not requested. While the existing policy directives only allow the waiving of invitational bids in an emergency situation, we noted that reasons for not requesting invitational bids also included situations where the contractor had specialized equipment not available elsewhere and situations where a specific contractor was requested by the municipality. In our view, these reasons may not justify the failure to comply with Board policy. We observed that one contractor was awarded a total of 26 contracts (approximate value of $27,000) because of his specialized equipment and one contractor was awarded 6 contracts (approximate value of $50,000) as a result of municipal requests. We believe that all municipal contracts which are funded in part by the Province, should be awarded according to contract value, on the basis of either a public or invitational tender. With respect to the above noted municipal requests, the Province funded a minimum of 15% of the contract cost.

We became aware of a contract for the construction of a storage shed on an employee's property. The storage shed was designed to house Board supplies and equipment deemed necessary to allow the employee to carry out his duties. Total cost of construction was $3,310. Invitational bids were not received on this contract. We note that construction of the storage shed occurred prior to the approval of the construction order. In addition, a memorandum of understanding between the employee and the Board, in which the details of ownership are described, was also not executed until after the storage shed was constructed. In our view, a benefit has not been conferred upon the employee as a result of this transaction. This sequencing of events, however, does not reflect prudent business practice.

We recommend that the policy directive dealing with contracts be amended to deal more explicitly with when it would be appropriate to waive invitational bids. We further recommend that the approval of construction orders by the General Manager be contingent upon the receipt of an invitational bid analysis. This analysis should document the reasons why the invitational bid requirement is waived. The Board of Directors should be informed of all contracts awarded without benefit of invitational bids.

Several of the current year well drilling contracts included in our review received only one or two bids. We note that these files contained evidence that an attempt had been made to contact three contractors. The initial contact attempt was generally made by telephone. No evidence was available, however, to indicate that all eligible contractors were actually contacted or that attempts were made to contact other contractors in order

to secure three bids. In our view, a written request will ensure contact and, as a result, may generate a greater response.

For every situation in which more than one bid was received, we observed that the contract was awarded to the lowest bidder.

We recommend that the Board improve its procedures for soliciting invitational bids. A written request may better ensure that all eligible contractors become aware of the invitational bid request.

Our review of contractor bids revealed that two construction firms, located in the same village, were operated by the same individual. The Board has frequently requested bids from each of these contractors for the same contract. In essence, this represents the receipt of one bid rather than two. We noted one contract in which only bids from these two contractors were received. The quoted bids were not identical. In our view, the Board should have been aware of the situation and taken steps to ensure that the integrity of the invitational bid process was not compromised.

To facilitate the invitational bidding process and to avoid situations similar to that described above, we recommend that the Board prepare a schedule of eligible well drilling contractors by area and by specialized equipment. This schedule should be approved by the Board of Directors. Such a schedule would assist the Board of Directors in assessing appropriate compliance to the Board policy on waiving invitational bids.

Comments of Officials

We agree with all of the above recommendations.

Controlling

Construction Monitoring

We determined that appropriate procedures were in place to monitor contract payments. Progress payments and holdbacks are being made only when supported by construction monitoring reports prepared by either the Board or contracted engineers responsible for the projects. Actual material usage is compared against budgeted usage. Construction standards and material quality are compared against contract specifications.

Project Reporting

The Board utilizes the Provincial voucher processing system. The "Monthly Expenditure Status by Type of Expense" report presents project expenditures on an individual project basis. In addition, the Board has developed a separate project information system. The Board re-inputs all journal and payment vouchers and captures this detailed information on a per contract basis or, for services provided by the Board, in the general cost categories of engineering and contingencies. The project information system, however,

performs very little data manipulation. In our view, the summarization and organization performed by the project information system can be readily facilitated by the coding and reporting capabilities of the Provincial voucher processing system. This would avoid duplication of effort.

On a monthly basis, project expenditures are summarized and presented in a construction report. This report is distributed to all senior managers and the Board of Directors. Management indicates that an analysis of significant variances is presented verbally at the management meetings. The construction reports, however, do not include this analysis. Inclusion of this data would make these reports more informative and would facilitate the monitoring and controlling activity.

We recommend a review of the project information system and the current voucher coding practices to ensure the information needs of the users are addressed and that information is gathered in an efficient manner. We further recommend that the Board document its variance analysis.

Comments of Officials

We have considered the proposed changes in the past. The utilization of the voucher payment system to prepare the construction report will be investigated. We will also re-examine the possibility of initiating an official variance report rather than depend on verbal reporting of same.

Standard Hourly Rates

On December 22, 1987 Treasury Board authorized the Board to implement standard hourly rates to recover project costs relating to salary, mileage and travel for those employees involved in engineering, design and construction supervision. The calculation method was outlined in the Submission to Treasury Board. Costs accumulated in the prior year are used in the current year rate calculation. We compared the type of charges accumulated by the Board for standard rate calculation purposes with those approved by Treasury Board. We determined that actual salary, business mileage and travel costs are used in determining the standard charge out rates. Prior to fiscal 1991, however, personal mileage, incurred by Board employees using Government fleet vehicles, was included in determining the costs accumulated for standard rate calculation purposes. In fiscal 1990 personal mileage accounted for approximately 2.5% of total recorded mileage. We estimate that the 1990 billings to municipalities were overstated in total by approximately $5,000.

The Treasury Board Submission also required that the standard rates be reviewed and revised on an annual basis and approved by a Board official. While the rates have been revised annually, they have not been subject to review and approval by either the Chief of Finance or the General Manager.

In 1989 a computer spreadsheet was developed for standard rate calculation purposes. We examined the rate schedule for 1991 and identified a spreadsheet formula error. As a result of this error, the 1990 billings to municipalities were overstated in total by approximately $25,000. The Contracts Officer has advised us that the spreadsheet will be corrected and the 1991 billings will be adjusted as necessary to reflect the correct 1991 rates.

We recommend that the annual rate schedules be reviewed and approved by the Chief of Finance. We also recommend that the Board refund to the municipalities the excess billings noted above.

Comments of Officials

We expect that the next budget may dictate a new method of determination of rates. We will give the concerns raised further consideration in light of such changes.

We agree that excess billings of prior years should be refunded when practical. The bulk of the affected projects remain active, as a result, we will adjust current year billings to reflect last year's excess billing. We propose not refunding municipalities on projects that are no longer active. As the total of such refunds would only be $1,902, we do not feel it would be cost effective to process the refunds.

Offer of Construction

Board staff provide engineering and/or construction services on selected projects. These projects will incur Board costs relating to salary, mileage and travel. As discussed earlier, the charge for services provided by the Board on each project is determined on the basis of actual hours and standard hourly rates. The Offer of Construction, however, does not include a definition of Board costs. We note that year-end billings to Municipalities by the Board do not explain how costs are determined. As a result, Municipalities may not be aware of the nature of the Board costs charged to the project or that these charges are based on standard rates rather than actual costs.

We recommend that the Offer of Construction describe the types of costs chargeable by the Board and the methods of calculating these costs.

Comments of Officials

We agree that the offer should be altered to include a description of the types of costs chargeable.

Contractor Invoices

A Board employee has been preparing invoices on behalf of two well drilling contractors frequently awarded contracts by the Board. This situation may present the appearance of a conflict of interest and represents a potential embarrassment to the Board.

According to the employee, the preparation of invoices was done for administrative ease. We did not detect any irregularities in the employee generated billings that we examined. We have been informed that the staff member has been instructed to cease the practice of preparing contractor invoices.

We recommend that the Board develop a policy dealing with the verification of contractor invoices.

Comments of Officials

We agree to better define the verification procedures through a policy.

Expense Claims

Objectives and Scope of Audit

Our objective was to determine whether expense claims were processed in accordance with Government policy, whether the claims provided an appropriate level of accountability, whether expenditures were made for the purposes authorized and whether economy and efficiency were appropriately considered in expenses incurred.

We examined expense claims of 19 of the Board's 32 employees. The claims selected were for those employees that had submitted a significant number and amount of claims. We examined claims for the period April 1, 1988 to July 31, 1990. This involved 432 requests for payment vouchers totalling $171,404. Each voucher could involve one or more expense claims.

Observations and Conclusions

We found that, generally, expense claims were processed in accordance with Government policy, that there was generally an appropriate level of accountability and that the expenditures were made for the purposes authorized. However, we did observe areas of concern. These are set out below.

- We observed that the 19 employees examined had claimed 639 round trips to Winnipeg in the 2 1/3 years. This appears excessive considering the nature of the operations of the Board. We requested explanations from employees regarding these trips. The explanations included:

  . Meetings with consultants and provincial and federal government officials.
  . Meetings related to committees the employees are involved with.
  . Project and planning meetings.
  . Meetings with major suppliers.
  . Using Winnipeg as a place to stay en route to other communities. Employees indicated that they stay at relatives and therefore save the

Government expenses because they are not staying at an expensive hotel.

- Professional development matters.
- Taking samples to water and soil testing labs.
- Taking government vehicles to Central Vehicle Branch.
- Picking up data at Water Resources and Maps and Air Photo Library for analysis.

We are not disputing the reasons for the trips. However, in our view, more economical methods such as the use of conference calls for certain meetings, greater use of fax and courier or bus services, etc. to transport and pick up samples and data should be carefully considered wherever possible to accomplish the objectives. In discussions with the labs involved, we were advised that most rural locations send in samples by bus or courier.

We recommend that the Board consider alternative economical methods to reduce the number of trips to Winnipeg.

- We also noted that documentation on travel claims should be improved:

1. In a number of mileage claims accountability is lacking because the only reference is the Winnipeg area.
2. Government policy requires that mileage claims include a start point and a destination point.
3. Adherence to Government policy is required to ensure appropriate accountability.

We recommend that wherever possible mileage claims include both a start point and a destination point.

- We observed the following matters pertaining to one employee:

- One instance of a duplicate claim being submitted for $302. The employee received and cashed both cheques.
  As a result of our audit, the employee has since refunded $302.
- There is an instance where the employee overcharged the Government for the required business insurance on his personal vehicle.
  As a result of our audit, the employee has returned $50 and has been requested to refund a further $62.

We recommend that the employee, his supervisor and the Chief of Finance more closely consider reviewing and monitoring expense claims.

Comments of Officials

The amount of $62.00 will shortly be recovered from the employee. The employee, his supervisor and the Chief of Finance and Administration will closely review and monitor all

future expense claims till such time as all the requirements are fully understood by this employee.

The Board will renew their efforts to minimize the number of trips to Winnipeg and attempt more economical methods whenever feasible. Every attempt will also be made to improve the documentation on travel claims.

Society for Manitobans With Disabilities Inc.

Introduction

The Society for Manitobans with Disabilities Inc. (Society) is an organization dedicated to the promotion of the full participation and equality of people with disabilities through a range of rehabilitative and habilitative services and by facilitating the development of a receptive and supportive environment. The Society receives a significant portion of its funding from the Government of the Province of Manitoba. The Society receives operating funds from the Departments of Family Services and Health, and has received capital grants through the Department of Culture, Heritage and Recreation. Funding from these sources amounted to $ 5.6 million or 64% of the Society's total revenues for the year ended March 31, 1990. The Society receives the remainder of its funding through donations and grants from corporations and individuals (in particular the United Way of Winnipeg) and from product sales, camp rentals, and interest on invested funds.

We noted that the management and staff of the Society are dedicated in carrying out their responsibilities. The Board of Directors are volunteers who are committed to the Society and have devoted significant time and energy to the Society. We wish to acknowledge this and to thank the directors, management and staff for their cooperation and assistance during our inspection audit.

Objective

We carried out an inspection audit under the authority of Section 17(4) of The Provincial Auditor's Act. Our objective was to determine whether the Society, significantly funded by public moneys, was organized and had adequate systems, policies, procedures and practices in place to ensure the accountability and protection of public moneys.

Observations and Recommendations

We noted that the Society is working towards an organization structure and establishing adequate systems, procedures and practices to provide accountability and protection of public funds. However, we concluded that there are opportunities for improvement. We

noted that the Society needs to further develop or update many of its policies. We observed that the Society has been working towards, and is continuing to develop, systems to monitor and evaluate its programs. The Society is continuing its efforts in strategic planning and program prioritization. We are encouraged by the Society's efforts in these areas.

During the course of the audit, we noted opportunities for the Society to improve its management and administrative practices. We recognize that the Society has limitations to its resources and that certain of our recommendations have resource implications. The Board and management should carefully consider our recommendations with a view towards realizing their objectives in ways that will minimize resource requirements. The following comments summarize our observations and recommendations.

A. Policy Development

We recommended that the Society needed to develop or strengthen their purchasing policy, conflict of interest policy, various human resource policies, trust account policy, cash management and investment policies and an insurance review policy.

The following comments relate to specific matters observed regarding policy issues:

i) While the Society's purchasing policy includes tendering procedures, it was determined that the Society was not adhering to its tendering procedures. This was also identified by the Society's external auditors. To ensure fairness to all suppliers and to demonstrate prudent use of public funds, we recommended that the Society use tendering procedures whenever practical.

ii) We observed that a potential conflict of interest situation exists between a Society employee and a company that has received significant business from the Society. The employee is responsible for awarding work to the company. The Board has been made aware of this situation. We did not observe any improper actions by the employee. We recommended that, in addition to formalizing a conflict of interest policy, all purchases from the above-mentioned company be carefully documented and reviewed by senior management.

iii) Human resource policies include policies and procedures dealing with vacation and overtime, hiring and promotion, performance management, training and development and expense accounts.

The following are specific observations related to human resource issues:

We noted opportunities for improvement in the documentation maintained for the recruitment and selection of staff and for employee classifications/ reclassifications. We recommended the Society strengthen its documentation practices in these areas.

We further observed that new staff being hired were paid at salary levels above those of the staff being replaced. The salaries were above the entry level salary. This could result in morale problems for longer term employees in the same classifications who are now paid at a lower rate than recently hired staff. We recommended the Society develop a plan to deal with the issue of pay equity for these classifications.

We also compared salary levels of certain positions at the Society to similar positions within the government. We observed one position which was paid at a lower rate than other comparable positions. We observed seven positions that were classified and/or paid at a higher level than equivalent positions within government. We recommended the Society review the salary levels of the above mentioned positions.

B. Management Practices

We observed a need for the Society to strengthen its management practices. These include planning, organizing, reporting, controlling and evaluating practices.

Planning relates to the development of strategic and longer term plans. During planning, objectives of the organization are established. Then key result indicators are developed that will assist management in determining that objectives are met. Planning also includes resource allocation and developing operational plans.

We mentioned that the Society is continuing its efforts in strategic planning and program priorization. However, there are still opportunities for the Society to improve its planning practices. A major issue is the Society budgeting for deficits. Clear, timely communication between the Society and the Government is essential if mutual interests are to be served. We recommended the Society develop a structured process to address the deficit issue. This includes the need to improve communication between the Government and the Society.

Organizing relates to how an agency is organized and staffed. To operate effectively, clearly established responsibilities, reporting relationships and documentation standards are required. We noted opportunities and recommended that:

- the Society clarify the roles and responsibilities of the Board and its members and
- the Society approve specific delegations of authority.

Reporting relates to supplying results oriented information. Controlling involves managers monitoring and controlling operations. They compare actual performance against expected key results and analyze the cause of any deviation so effective corrective action can be taken. Evaluating involves reviewing activities to learn from past decisions and to apply this knowledge to future activities.

A proper planning process needs to be in place for there to be effective reporting. Similarly, effective controlling and evaluating functions are dependent upon adequate reporting practices.

We observed that the Society could improve its reporting, controlling and evaluating practices. We identified opportunities to improve reports to management and the Board, to improve its annual report and to strengthen its control and evaluation of financial and operational performance.

Comments of Officials

Officials are in the process of developing an action plan to deal with the matters raised in the report. The Department of Family Services is monitoring the Society's progress and has offered assistance as required.

University of Manitoba

Electronic Data Interchange (EDI) Purchasing System

Introduction

EDI is a process that uses automated methods to replace paperwork, communicate business information in a structured format and process transactions between buyers and sellers. As such, it has an operational goal of increasing efficiency through reduced document handling, storage and data entry.

The University of Manitoba began introducing EDI technology during the 1988/89 fiscal year on a test-basis. At present, the University has EDI agreements with four suppliers, representing total purchases of approximately $2.1 million for the 1990/91 fiscal year. As the University gains more experience with the EDI process, we understand that consideration will be given to increasing the number of EDI agreements.

Objectives and Scope

We carried out an audit to evaluate the processes and controls in place to ensure that EDI transactions occurred, are valid, authorized, complete and appropriately presented

in the University's records.

We reviewed the system of internal controls over transactions recorded through the University's EDI purchasing system.

Observations and Recommendation

We concluded that the system of internal controls over EDI transactions is appropriate to ensure that such transactions occurred, are valid, authorized, complete and appropriately presented.

As the University negotiates new agreements with its EDI trading partners, the University should consider amending the agreements to include such items as security matters; liability for errors; and confidentiality.

Comments of Officials

University officials advised us that they intend to consider these areas in future agreements.

Venture Manitoba Tours Ltd.

Policies and Procedures

In the previous year, we reported to management that a manual outlining procedures for accounting and financial functions at the resort was required. We recommended that the Company complete such a manual and provide training to all employees involved in these functions. Action has been taken. The Comptroller developed procedure manuals for several key functions and on-the-job training has been provided to staff members. We are pleased with this action and consider it a significant improvement. As a result of our recent audit, however, we identified certain key policies that have not been developed and documented in the manual.

Policies that we identified as requiring further development relate to the provision of complimentary services, the allocation of costs to the various revenue areas and the enhancement of internal controls over room revenues and disbursement documentation.

We recommended that management initiate appropriate action on these matters as soon as practicable.

Comments of Officials

Officials agreed with our observations and recommendation. Action has been initiated.

Department of Cooperative, Consumer & Corporate Affairs

Corporate and Business Licence Fees Revenue

Introduction

The Corporations Branch of the Department of Cooperative, Consumer & Corporate Affairs is responsible for the registration of firms and the collection and recording of fees provided for under The Corporations Act and The Business Names Registrations Act and regulations. Approximately $2.4 million in revenue is collected annually from the approximately 42,000 corporations and 30,000 business names registered.

Objectives and Scope

The objectives of our audit were:

- to determine that the internal controls are adequate and reliable to ensure the proper assessment, collection and recording of the revenue and
- to determine that the revenues are assessed and collected in accordance with applicable authorities.

The audit was carried out for the period April 1989 to September 1990.

Observations and Recommendations

We concluded that the internal controls over the assessment, collection and recording of the revenues were adequate. No significant weaknesses in the internal controls were observed. We also concluded that, with the exception of the items below, the revenues were being assessed and collected in accordance with the relevant legislation.

Services such as searches, certified copies of returns, etc. are provided free of charge to various Government Departments and Crown Agencies. There is no provision in the authorities governing the fees for providing services other than at the prescribed fees. We are informed that the practice of providing service to Government Departments and Crown Agencies at no fee has always been followed at the Branch.

We recommend the Department review the practice of providing the service at no fee for Government Departments and Crown agencies. Our view is that the fees should be charged for the services performed regardless of the client relationship. This would allocate the cost to the Government Department or Crown agency responsible. If the current practice of providing the service at no fee is to be continued, the regulation should be appropriately amended.

Comments of Officials

The policy of providing the services free of charge to Government Departments and Crown Agencies will be reviewed and appropriate amendments made.

Department of Education and Training

Manitoba Student Assistance and the Canada Student Loans Programs

Introduction

The Manitoba student assistance programs and the Canada Student Loans (CSL) Program are designed to encourage students to further their education and training by providing supplementary resources to remove or reduce financial constraints.

Authority for the Manitoba programs is provided by The Education Administration Act and the Bursaries, Scholarships and Loans Regulation thereunder. Assistance in the form of loans, bursaries and loan rebates is provided to students through an appropriation of the Consolidated Fund. Loans are repayable assistance, while bursaries and loan rebates are non-repayable.

Manitoba students may also apply to the Branch for CSL assistance. The Branch assesses applications and makes awards on behalf of the Federal government. The Branch, which receives a fee for providing this service, follows administrative criteria provided by the Federal government. These criteria are derived from The Canada Student Loans Act and regulations. Funding for Canada Student Loans is provided to students by banks pursuant to loan agreements guaranteed by the Federal government.

During the 1990/91 program year (June 1 to May 31) the Branch handled 11,758 applications for Manitoba government loans, bursaries, and loan rebates and 14,431 applications for CSL assistance. Total student financial assistance awarded in each of the past 5 program years was as follows:

	Manitoba Programs	Canada Student Loan Program
1990/91	$10,125,500	$39,365,591
1989/90	10,783,700	38,634,660
1988/89	10,385,300	46,410,300
1987/88	10,370,000	44,917,000
1986/87	8,406,900	41,965,800

Objectives and Scope

We recently conducted an audit of the practices and procedures used by the Manitoba Student Financial Assistance Branch in administering its programs. The Branch's major programs are the Manitoba student assistance programs and the CSL Program. Our objectives with respect to the Manitoba student assistance programs were:

- to determine whether there were appropriate management practices and internal controls in place to ensure:
  - only eligible applicants receive assistance,
  - the correct calculation of loans, bursaries and loan rebates, and applicable interest,
  - complete and accurate recording of assistance, and
- to determine compliance with relevant acts, regulations and government policy.

Our audit included testing of the Branch's assessment system from the receipt of an application through to the payment of assistance and the recording of the payment. We audited a sample of applications from the 1990/91 fiscal year to ensure that assistance was correctly calculated. We also reviewed relevant acts, regulations and government policy.

Our objective regarding the Canada Student Loans Program was to evaluate existing agreements for administering the program. Our audit did not include program evaluation.

Observations and Recommendations

Manitoba Student Assistance Programs

On the basis of our audit we concluded that, generally:

- there were appropriate management practices and internal controls in place to ensure that:
  - only eligible applicants receive assistance,
  - loans, bursaries, loan rebates and interest are correctly calculated,
  - assistance is completely and accurately recorded.
- the Branch complies with relevant acts, regulations and government policy.

Although the Branch administers the Manitoba programs in a generally satisfactory manner, we did note areas where improvements should be made. These are as follows:

1. *Interest on Loans and Bursaries*

Students are required to repay Manitoba student loans according to terms of signed loan agreements. One such term requires the student to pay interest on the unpaid balance of the loan. Bursaries are different from loans in that they are not normally repayable. However, if the student fails to undertake the course of studies for which the bursary had been provided, a portion of the bursary must be repaid. In this situation the Branch also charges interest. We have the following concerns regarding interest charged on loans and bursaries:

a) Authority

Section 13(5) of the Bursaries, Scholarships and Loans Regulation under The Education Administration Act provides for interest to be charged on loans. This regulation however does not provide the Branch with the authority to charge interest on bursaries.

Although the Branch has Treasury Board approval to charge interest on bursaries and there is implied authority under the Financial Administration Act, we feel that the fundamental authorities should be embodied in the regulation.

We recommend that the Branch amend the Bursaries, Scholarships and Loans Regulation to include authority to charge interest on bursaries.

Comments of Officials

The Director of the Branch concurred with our recommendation and will be proceeding with the inclusion of bursary debt interest in the Bursary, Scholarships and Loan Regulation.

b) Interest Rates

The Branch charges interest rates which vary from provincial policy. During the 1990/91 fiscal year the Branch charged 13.59% interest on loans and 11.59% on bursaries. Section 7E-3.2 of the Financial Administration Manual provides that where the legislation or regulation does not specify a rate of interest, the rate shall be 2% above prime. Neither The Education Administration Act nor the Bursaries, Scholarships and Loans Regulation specify the rate of interest to be charged. The Branch charges two different interest rates neither of which is set at 2% above prime. The Branch charges interest on loans at an annual rate which is the weighted average rate of interest for the preceding year charged by the chartered banks to their prime borrowers. The interest rate for bursaries was established by Treasury Board as 10% or 2% below the Department of Finance rate,

whichever is greater. Consequently, the Branch is charging interest rates which do not comply with provincial policy.

We recommend that the Branch follow provincial policy with respect to interest rates.

Comments of Officials

The Director stated that the Branch is currently reviewing its interest rate policy in consultation with officials from the Department of Finance and the Branch solicitor.

2. *Accounts Receivable Statements*

The Branch provides former students, who are repaying provincial assistance, with an annual statement which indicates loan status and provides information as to how their payments have been distributed between principal and interest. The information on these statements is not clearly presented and could be misleading. The statement should be easy to read and understand.

We recommend that the Branch revise the format of the accounts receivable statements so that the outstanding status of loans is clear.

Comments of Officials

The Director concurs with the recommendation and indicated that the Branch has been monitoring client responses to this first electronically produced annual statement in order that it may be revised to provide clear and understandable information.

3. *Loan Rebates*

Loan rebates are a form of non-repayable provincial assistance. A loan rebate is a type of bursary which is paid at the time the student's CSL debt becomes repayable - generally six months after completion of studies. Loan rebates are paid directly to banks to be applied against the student's CSL debt. This type of bursary was introduced in the mid 1970's and was intended to maximize use of the Canada Student Loans. According to the Branch's brochure on the Student Aid Program a student may claim the loan rebate by providing the Branch with a copy of his/her consolidated loan agreement with the bank. The consolidated loan agreement provides evidence that the student has completed his/her studies and sets out the student's CSL repayment arrangements. Usually the Branch receives this documentation before paying the loan rebate. However, the Branch has paid loan rebates on an accelerated basis, i.e. without first receiving a claim for the

rebate. In some instances the Branch has paid accelerated loan rebates without knowing if the student has completed his/her studies and made repayment arrangements. In these cases proper claiming procedures have not been followed.

Management has stated that payment of these accelerated loan rebates is driven by the availability of money in the Branch's appropriation at year end. In the 1990/91 fiscal year $2,538,796 was paid out in loan rebates. Of this figure $868,195 was paid as accelerated loan rebates. The Branch has a policy whereby students are allowed 5 years to claim their loan rebate awards. In the case of accelerated loan rebates, the Branch may be paying out awards which otherwise would never be claimed.

We recommend that the Branch process loan rebate payments only if the appropriate claiming procedures have been followed.

Comments of Officials

The Director indicated that by being able to accelerate payment, the Branch can exercise some control over the size of its total loan rebate commitment. The Branch has also been converting loan rebate awards into regular bursaries in order to solve financial difficulties due to cash flow problems on the part of students. Although Regulation 467/88R 10(2) permits the payment of loan rebates on an accelerated basis, the Director acknowledged that the practice could result in unfair treatment. The Director stated that in 1991/92, no loan rebates will be converted into bursary assistance and no loan rebate payments will be forced (accelerated) at the end of the fiscal year.

Canada Student Loans Program

The Branch administers the assessment portion of the CSL Program under an informal agreement with the Federal government. Because of the informal nature of the agreement, we do not conclude on the propriety of its terms. Our comments are restricted to recommendations as to how such an agreement should be improved.

1. *Formal Agreement*

The Province does not have a formal agreement with Canada respecting administration of the CSL Program. An agreement is being negotiated. A formal agreement should be in place so that responsibilities are clearly understood. Without a formal agreement misunderstandings and disputes may occur.

We recommend that the Branch work toward early completion of negotiations for a formal agreement with the Federal government respecting administration of the CSL Program.

Comments of Officials

The Director indicated that an intergovernmental committee, comprised of representatives from each Province/Territory and the Federal government, has been formed to formally address the administration of the Canada Student Loans Program. At a recent Post-Secondary Deputy Ministers Committee meeting on June 21, 1991, a decision was made to establish a further working group that will finalize a statement of roles and accountabilities for federal and provincial governments. Through these initiatives the Branch is working towards formalizing an agreement with the Federal government to administer the Canada Student Loans Program.

2. *Administration Fees*

Under the existing administration fee formula, the Federal government pays only a small portion of the Province's cost of administering the CSL Program. The Branch should be adequately reimbursed for administering this program.

The Branch is compensated according to the number of certificates of eligibility issued to successful CSL applicants during the federal program year (August 1 to July 31). In April 1991 the Branch received $197,800 as its administration fee for issuing 12,652 certificates of eligibility during the 1989/90 federal program year.

In 1989, based on 1987/88 data, the Branch estimated the processing cost for each CSL application to be $107.18. The Branch calculated this figure by first determining the total cost of administering the student assistance programs. Appropriately included were building lease costs, Appeal Board costs, and the cost of staff benefits which are not direct costs to the Branch. Excluded were costs attributable solely to Manitoba programs. Officials then apportioned this total cost according to the percentage of applications received which were CSL applications. Because staff administer the CSL Program and the Manitoba student assistance programs concurrently, we determined this to be a reasonable method of estimating the costs attributable to the CSL Program.

If the Branch had received $107.18 per application, it would have received approximately $1,500,000 for the 13,995 applications received during the 1989/90 program year. Although the figures used are not current and only estimates, it is evident that the actual fee does not reflect the cost of administering the CSL Program.

We recommend that the Branch negotiate an administration fee which fairly reflects the actual cost of administering the CSL Program.

Comments of Officials

The Director stated that the Branch has been promoting changes to the administration fee to reflect the actual costs associated with administration of the Canada Student Loans Program. The issue will be addressed through the intergovernmental working group established to finalize roles and accountabilities of federal and provincial governments.

Department of Environment

Environmental Management Division

Introduction

The Provincial Government established the Department of Environment as a separate department to place additional emphasis on environmental matters. The Department's mission is to ensure a high level of environmental quality for present and future generations of Manitobans. Environmental Management is a major division in the department with budgeted resources for the 1991 fiscal year of $4,032,600 and 80 staff. The Division's objectives are to manage, protect and enhance Manitoba's natural environment. To achieve its objective the division is split into three branches:

- Environmental Approvals,
- W.M. Ward Technical Services Laboratory, and
- Environmental Quality Standards.

The Environmental Approvals Branch is responsible for approving licenses under The Environment Act. The Department issues 200 to 250 licenses yearly. Federal legislation may require the federal government to approve certain very large projects in Manitoba. The provincial and federal governments work together on such projects.

The W. M. Ward Technical Services Laboratory is an accredited facility which conducts the range of studies defined by the U.S. Environmental Protection Agency. They conduct certain of the testing for the department, other departments and crown agencies and the Public.

The Environmental Quality Standards Branch is the research section of the department. Research and studies are concentrated in air, water and land areas. This branch also produces the State of the Environment Report required by The Environment Act.

Objective and Scope

The objective of our audit was to determine whether appropriate management practices are being applied to the operations of the Environmental Management Division of the Department of Environment. Our audit compared the Division's planning, organizing, reporting, controlling and evaluating practices with the Government's Management Practices Guide. We used the Government's Management Practices Guide as the criteria for appropriate management practices.

Observations and Conclusions

Our audit determined that appropriate management practices were either being applied or were being developed to address organizational changes in the Environmental Management Division.

Departments of Family Services and Health

Observations Resulting from the Inspection Audit of the Society for Manitobans with Disabilities Inc. and Departmental Related Processes

In conjunction with our inspection audit of the Society for Manitobans with Disabilities Inc. (Society), we reviewed the grant accountability processes and management practices of the departments through which the Society receives its funding. The Department of Family Services provides the majority of this funding. The Department of Health provides funding for the Society's Wheelchair Services Program. We identified opportunities to significantly improve departmental practices. The matters related to funding, funding timing and service agreements relates to both departments. The other matters relate mainly to the Department of Family Services.

Funding

There is no one department or central agency which is responsible for coordinating funding with the Society and other similar organizations. According to the Society's audited financial statements for the year ended March 31, 1990, the Society received $5,546,503 or 68% (1989-$5,328,285 or 71%) of its operating funds from two provincial government departments. The Department of Family Services contributed $4,851,203 or 87% of these funds (1989-$4,711,185 or 88%). This was composed of grants through two programs and cost recovery from a third. The Society also received operating funds totalling $695,300 or 13% of the government funding (1989-$617,700 or 12%) from the Department of Health. As well, the Society received capital grants of $50,000 from the Department of Culture, Heritage and Recreation and $45,000 from the Department of

Urban Affairs. The Society also has received funding from other service agencies, such as the Manitoba Community Services Council, which receive funding from government.

Government funding should be coordinated through one department. The lack of coordination could result in inefficient, redundant efforts by civil servants, inappropriate funding levels or duplication of services and funding.

Our review of the Society's audited financial statements for the last five years revealed that, despite recording a deficit on its operating account, the Society has maintained a capital account surplus of between $1.5 and $2.0 million in cash and term deposits. The capital account surplus is composed primarily of bequests and donations received by the Society without specific direction for the use of the funds. The use of these funds is at the discretion of the Board of Directors. It is not clear that the government has taken this surplus into account in deciding the level of operating and capital funding to be provided to the Society.

One department should coordinate funding. This should logically be the primary funding department, Family Services. This department should undertake a critical analysis of agencies' financial situation to ensure that funding matches need.

We recommend the government identify one department to coordinate funding to organizations such as the Society. In our view this should be the primary funder, which in this case, is the Department of Family Services. We further recommend that the coordinating department critically assess the funds that agencies have on hand from other sources in deciding the level of Government funding to be provided.

Comments of Officials

The Departments of Family Services and Health recognize the need for ongoing, effective communication regarding the funding of the Society both within the Departments as well as between departments.

Both the Department of Family Services and the Department of Health acknowledge the need for improved interdepartmental coordination but would suggest that this is more appropriately a central government responsibility, such as Treasury Board. The Departments will, however, actively work with the other funding departments to ensure the ongoing sharing of funding and other information as required.

Regarding capital surpluses, these should be understood and properly taken into account when reviewing the level of operating and capital funding to an agency. It is the intention of the Departments to ensure this is given proper consideration when determining funding levels.

Funding Timing

The Government has not approved the Society's funding requests on a timely basis. Although the 1990 and 1991 fiscal year funding requests were completed and submitted by the Society in the latter part of 1988 and 1989 respectively, the Government did not approve funding to the Society until well after the start of the Society's fiscal year.

Good management practices require budgets and resource allocations to be in place well in advance of the fiscal year. The Society has had difficulty in planning and budgeting because it has not been notified of funding levels on a timely basis.

We recommend that the Department review its funding approval process to ensure that funding decisions are made and communicated to funded organizations on as timely a basis as practicable.

Comments of Officials

The Departments have operated within the Government's estimates cycle which has been atypical over the recent years. The Government has expressed the desire to return to a normal estimates cycle as soon as possible which will largely address this concern. Furthermore, attention will be focused on providing funding level approval at the earliest possible time within the estimates process.

Communication

We observed that communication between the Departments and the Society should be improved. We noted that communication related to the budget process was often not clear or timely.

Clear, two-way communication is the foundation for good management practices. The Society and other such agencies cannot plan or manage in isolation, particularly in view of their dependency on government funding. A lack of clear, timely communication from the government regarding service expectations, budgeting processes, and funding levels creates management problems for agencies. Planning and budgeting difficulties at such agencies are often related, at least in part, to communication problems with the government.

We recommend that the Department strive to improve communication with the Society and its other funded agencies.

Comments of Officials

Improved communications with the funded agencies is an ongoing objective of Family Services. With the establishment of the Agency Relations Bureau an emphasis will be

placed on the development of improved financial management and information systems. Timely and effective communication will be enhanced as systems are implemented.

Assessment of Management Processes and Practices

The Department of Family Services, as the primary funder, does not assess the appropriateness of management processes and practices at the Society and other similar agencies. Presently, the Department's opinion of the agencies management practices is formed by review of the Society's annual Auditor's Report, information provided by the Society in its annual funding submission and informal day to day contact by Departmental staff with staff of the Society.

An ongoing, proactive assessment process could provide government with assurance as to the agency's management practices and identify potential problem areas. Without a formal review process in place, the Department is unable to ascertain if the organizations funded by the Department have appropriate procedures and practices in place to ensure accountability and protection of public funds.

We recommend Family Services implement a system to provide for the ongoing review and assessment of the management practices of organizations they provide with government funding. Our inspection audit of the Society and of other funded agencies provide recommendations as to how management practices should be improved. We expect the Department to follow up on these recommendations.

Comments of Officials

With the creation of the Agency Relations Bureau it is expected that a management practices model will be developed. The Bureau will provide advice and guidance to the operating divisions on the model's use in reviewing and assessing management practices in the agencies. In addition, it is expected that consultative assistance and training for the agency boards will enhance agency management practices and increase accountability.

The Department will review the recommendations of the Society's inspection audit in regards to improved management practices at the Society and will follow up on these recommendations appropriately.

Financial Monitoring

Current review practices are primarily limited to receipt of the annual financial statements and certain analyses as part of the annual budget process. Government review and analysis of the Society's financial activities should be improved.

Family Service's officials were unable to provide us with a the Society's final approved 1989/90 budget. Comparisons of budget to actual operating results together with

variances explanations were also not available. There was no evidence that a formal analysis of annual financial transactions and balances had been carried out.

It is essential that Family Services, as the primary funder, closely monitor operations of such agencies to ensure that funding is expended for the purposes intended. Close monitoring by the Department will also reveal problems, including deficit problems, at an early date so timely corrective action can be taken. Without adequate ongoing financial monitoring, the Department may fail to detect instances where grant funding was used inappropriately or where budget problems are developing.

The Department has recently established an Agency Relations Bureau. The Department should develop analytical review procedures and apply these an a timely basis. We recommend that the Bureau take action to implement improvement in the Department's monitoring of agencies such as the Society.

Comments of Officials

The Department recognizes the need to improve the monitoring of the agencies it funds and expects that with the creation of the Agency Relations Bureau appropriate steps will be taken to address this.

Service Agreements

In past years, the funding provided to the Society was related specifically to the programs being delivered by the Society. Government funding should be directly related to services expected to be delivered and the resources required to deliver those services. In recent years however, grants to the Society have been shifting towards a global funding approach. As a result, it has become more difficult for Departments to implement their priorities and to relate Departmental funding to specific programs.

Both the Society and the Departments should be clear as to the services to be provided. Because the relationship between funding and services to be delivered is no longer clear, it is difficult for the Departments to hold the Society accountable for the provision of specific services.

We understand that Family Services is working to resolve this concern. It is in the process of developing service delivery agreements with agencies it funds. Such an agreement would set out responsibilities of both parties, programs to be provided and levels of services and accountability requirements. An agreement with the Society should also include services provided by the Department of Health. This agreement would also assist in ensuring that the funds are used for the purposes intended. It would also clarify each party's roles, responsibilities, accountabilities and minimize misunderstandings.

We recommend that Family Services implement a service delivery agreement with the Society.

Comments of Officials

The Department agrees that service delivery agreements are critical in strengthening of financial control and agency accountability. The Agency Relations Bureau is working towards the design of a service agreement framework and will provide advice to operating divisions in their development of service agreements.

Department of Finance - Taxation Division

Taxation Division - Management Practices

Introduction

The Taxation Division's primary objective is to collect tax revenues due under the statutes administered by the Division in an efficient and effective manner. This is to be done while maintaining taxpayer confidence in the integrity of the tax system as a result of applying the rules under the statutes uniformally and consistently.

In 1989, a review of the Division was completed. The review had been undertaken at the request of the Minister of Finance to investigate the possibility of restructuring the Division's organizational structure and to determine whether there was a basis to low staff morale. The review indicated a lack of effective management practices. The Division recognized the need to take the steps necessary to improve its management practices.

The Taxation Division had been organized on a statute basis which consisted of three Branches: Retail Sales Tax; Mining and Use Taxes, including the Special Investigation Unit; and the Corporation Capital Tax/Health and Post Secondary Education Tax levy.

The reorganization process commenced with reviews of taxation administrations in New Brunswick and Saskatchewan in 1989 and Quebec in 1990, which provinces had functionalized their taxation responsibilities. The functional reorganization of the Division commenced in the Fall of 1989 with the planning of the organizational structure. This required staff input for all functions in all three Branches of the Taxation Division. Delays in the provision of resources for staff classifications and space renovations detrimentally delayed this reorganization process which was finalized in April of 1991. The reorganization revealed areas where economies, efficiencies and effectiveness should be improved. Management's efforts were required to address problems inherent in such a significant reorganization to ensure that the proper collection of revenues was being maintained. Management was heavily committed to the reorganization and concentrated their efforts in this direction as a first priority and then intended to concentrate on the management practices concerns.

In early 1991, a number of allegations regarding the Taxation Division's operations were identified in the Legislative Assembly, the news media and in Public Accounts Committee meetings. The Minister of Finance requested that the Provincial Auditor's Office undertake a special audit of the allegations raised. This request was accepted.

We carried out the special audit to determine whether there was substance to the allegations made but we did not limit ourselves to these matters. Our findings on the allegations are included in a separate report to the Minister of Finance. As a result of our work, we noted a number of improvements required to the management practices within the Division. Recommendations for improvement to management practices were developed as an extension of our investigation into the allegations. We recognize that the Division was aware of the need to improve its management practices as a result of the divisional review conducted in 1989. Our observations and recommendations on the current status of the management practices follow.

Objectives and Scope

The objective of our audit was to determine whether appropriate management practices are being applied to the operations of the Taxation Division of the Department of Finance. We used the Government's Management Practices Guide as a basis for appropriate management practices.

The audit was carried out in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary.

The audit of the Division was carried out during a transitional period in the Division's reorganization. The need for improvements in the management practices within the Division was recognized by management and the Division had started to work to improve its management practices. Our comments relate to improvements still needed at the time of our audit.

Observations and Recommendations

1. Planning

Planning is the most fundamental and important task in management. It is an essential part of each manager's responsibilities. It should provide the framework which guides the Taxation Division's activities. During the planning process, management needs to consider the development of policies, systems, practices and procedures to ensure appropriate accountability, and to preserve and protect public funds.

An appropriate planning process involves strategic planning, mid-term planning, resource allocation and operational planning.

Without appropriate planning, effective direction is not established, and it is much more difficult to have effective reporting, controlling and evaluating practices working to advantage.

The Division still needs to develop a strategic plan. This includes conducting a comprehensive needs assessment, establishing objectives and determining strategies to achieve the objective. Other steps in planning include setting goals and identifying key result indicators which would enable the Division to appropriately measure the achievement of its objectives. The Division then needs to develop a mid-term plan and address resource allocation and operational planning.

We recommend that the Division continue with efforts to improve its planning practices and to implement a proactive planning process. The planning process should be a participating effort among staff and sections. It might also be appropriate for the Division to use a facilitator to help with the process.

Comments of Officials

Management agrees that planning is a fundamental and important task. Facilitators from the Department's Financial Management Systems Branch have assisted the Division in the formatting of action plans for the two major operating branches of the Division (ie. Administration and Audit). The actions plans are presently being reviewed by the Department's Financial and Management Systems Branch before presentation to the Provincial Auditor.

a. Policies and Procedures

We identified a number of policy and procedure matters where improvements should be made. For example, formal policy and procedure manuals did not exist for the collection section. Collection policies and procedures were primarily based on historical practice and for the most part conveyed verbally to staff.

In addition, policies and procedures development should not be limited to specific tasks such as the accounts receivable collection function or the documentation of the cash receipts system but should also include other administrative policies and procedures. The need for the development of formal policy and procedure manuals is also not limited to the collection section but applies throughout the Division. Other specific areas where there is a need to develop and/or to improve policies and procedures include:

- the conduct of investigations by the Special Investigations Unit,
- file handling in the Special Investigations Unit,
- preparation of court briefs by investigators,
- when to use the set-off provision in the collection of accounts,
- the control of taxpayer files,

- confidentiality requirements,
- travel,
- file selection for audits and
- tax audit file documentation.

Formal policy and procedure manuals provide consistent direction to staff and are necessary in the training of staff in new procedures as well as the training of new or temporary staff. Manuals also assist managers in their assessment of staff duties and provide an overview of the systems and processes within each section.

Without policy and procedure guidance material available, staff must seek direction from available sources including historical practice and personal judgement. In addition, with regard to the collection of taxes due, without key collection policies and procedures information available, staff may not be aware of the Division's collection practices and may not perform appropriate procedures which ensure the timely collection of accounts.

The development of formalized policies and procedures is a sizeable, time-consuming task requiring cooperation and input from a variety of sources. In order that policies and procedures are developed in an effective manner, a systematic approach needs to be developed to identify and priorize areas which require policies and procedures initiation and review. This systematic approach would also include the development of a formalized process for the review and approval of policy and procedure changes. All policy and procedure approval should come from appropriate authorized officials. These authorized officials should be at a senior level of management. Standard policy documents should also be developed as part of this approach.

We recommend that a systematic approach, including a detailed needs assessment, be developed to identify and priorize the areas for policies and procedures development. The standardization and approval process for policies and procedures should be an integral part of the approach.

Comments of Officials

The reorganization from three autonomous branches to three very different functional Branches requires that policies and procedures become far more formalized than in the past. The Division will be preparing policy and procedures manuals for all major functions within the Division. A start had been made on policy and procedure manuals for audits to be conducted under the various statutes. These audit policy/procedures manuals will provide our tax audit staff with enabling information so that they can perform their duties in a more efficient and clearly defined mode. Similar procedural manuals will be developed for all major functions within the Taxation Division. The completion of these long overdue manuals will require considerable effort from managers and staff over a period of time.

b. Taxpayer Liabilities

For the purposes of using enforcement procedures set out in the Acts, each of the tax Acts has a section that establishes circumstances under which a person is deemed to be a debtor of the Government. One or more of these circumstances must be met in order for the Division to enforce collection.

We observed that for Retail Sales Tax and all but one of the Mining and Use Taxes, the Division may only have issued informal letters of liability to a taxpayer. Although the liability letters are discussed with the taxpayer, in many cases there is no written evidence from the taxpayer to acknowledge their agreement to the liability. As a result, in these instances, the circumstances of a debtor per the Acts has not been met and enforcement provisions of the Acts cannot be used.

In addition to the inconsistency with which the Division establishes taxpayer liability, we also noted that there is inconsistency in the recording of the taxes receivable. Corporation Capital Tax and Mining and Use Taxes receivable are set up only after the taxpayer has agreed to the assessment and collection is reasonably assured. Retail Sales Tax and Health and Post Secondary Education Tax receivable are recorded before the end of the 60 day appeal period.

In order to assist in effective, timely collection of accounts, the taxpayer liability needs to be positively established as soon as practicable. Otherwise there is potential for taxpayers to use a variety of tactics to defer acknowledgement or payment of the taxes. Consistent recording of taxes receivable is also important because this will assist staff in understanding the processes to follow, minimize the risk of errors and work to reduce staff time on accounts not due as yet.

Consistency in dealing with taxpayers will be aided by the reorganization. The Division's functional lines should also reduce the number of different divisional staff contacting the taxpayer.

We recommend that the Division review the policies, practices and procedures involving the establishment of taxpayer liabilities and the recording of taxes receivable. The review should ensure that provisions of the Act to enable enforcement of the liability are met and that, as much as practicable, there is consistency in the establishment and recording of the liability among the Acts. The policies, practices and procedures should be documented, communicated to, and reviewed with staff.

Comments of Officials

Past inconsistencies have been corrected by requiring the prompt issuance of assessments under all statutes (which are recorded in receivable records) except where taxpayers have agreed to the tax audit liability shortly after the audit.

Taxpayers signed acknowledgement of the tax audit debt prompts recording of that debt in receivable records.

The interlinking of three computer banks will assist in coordinated collection action on delinquent Taxpayers. This project is presently in process as is the improvement and coordination of collection procedures.

2. Organizing

Organizing involves arranging staff and resources into distinct, efficient operating units. Organizing includes the development of clearly established responsibilities, reporting relationships, and standards of documentation. It should ensure that staff interact, communicate and participate in the programs and processes which allow an organization to achieve its objectives and perform effectively. In order for the Taxation Division to manage its operations efficiently and effectively, it must be properly organized and staffed.

We recognize that the Division is in the final stages of its reorganization efforts. This has been a significant task. During our audit we noted the following areas in which improvements need to be made in the Division's organizing function and/or the communications process relative to the organization:

a. Segregation of Duties

We observed several instances where the Division should improve its segregation of duties.

First, the collections area classifies retail sales tax accounts according to Active, Non-vendor, Inactive, In-bankruptcy or Receivership or Terminated. All collections staff can transfer accounts from Active to Inactive status. Only the collections supervisor can transfer accounts from Inactive to other categories. There is no senior management review or approval of the transfers, nor are there guidelines that set out the criteria for the transfer of accounts.

Second, within the collections area, we observed that there is a disproportionate number of large dollar accounts assigned to one individual.

Third, authority for other than the basic collection procedures is designated to staff levels more senior than the collections staff.

Fourth, staff undertaking Mining and Use Tax audits are responsible for establishing taxpayer liabilities, maintaining the log book recording the liabilities and collecting the taxes.

Fifth, staff of the Taxpayer Services Group were assisting collections staff in the

investigation of delinquent Retail Sales Tax returns and the collection of smaller dollar value accounts.

Proper segregation of duties helps to ensure operations run in an effective, efficient and controlled manner. In the first instance, the lack of an independent review could result in the account status being changed at an inappropriate time resulting in ineffective or inappropriate collection efforts. In the second example, the inequitable distribution of duties may result in a deferment of timely action being taken on accounts receivable and could also affect staff morale. In the third case, delays can result in the issuing of documents which may ultimately result in loss of monies due the Province. This also results in senior management performing duties which could more appropriately be done at a less senior level. In the fourth instance, auditors being responsible for inappropriate activities could result in the inappropriate handling of responsibilities with the ultimate result being the loss of tax revenue. This way also results in staff not devoting appropriate time to their audit responsibilities. In the fifth instance, the distribution of accounts to both collections staff and taxpayer services staff results in a division or fragmentation of responsibility and accountability to two areas. Effectiveness of the collection process may be impaired. In addition, collection duties are being assigned to staff whose expertise and technical training is not in collections.

We recommend that the Division review and improve its division of duties in the above areas.

Comments of Officials

Deficiencies noted were known to by Division management prior to the Special Audit. Corrective action required hiring a Manager of Collections which was delayed because an inadequate classification was given to that important position.

The Provincial Auditor supported Division management's reclassification request to The Civil Service Commission which recently resolved that problem.

Obtaining the services of a credit manager in a consulting capacity has rectified many of the weaknesses noted with recommendations for resolution of the remaining problems by the new Manager of Collections early in 1992.

b. Staffing Level - Manager of Collections

The annual revenue collected by the Taxation Division is in excess of a billion dollars. Support staff is required to collect the taxes due. Collections expertise combined with human resource management expertise is necessary to effectively manage this activity.

With the number of staff involved in the collection process, human resource management is critical. A senior collections manager is needed to provide the

expertise to optimize cash flow and minimize bad debt losses. The manager is responsible for managing this activity, including developing, documenting and managing divisional policies, system development, staffing, training and development, performance standards, etc. The combination of these attributes was not available within the collection area of the Division at the commencement of our audit.

We found that this position was not classified at a level which would attract personnel with the necessary qualifications.

We recommend that the Division reassess the staffing level of this position to ensure it is filled at an appropriate level of expertise.

Comments of Officials

Division management requested reclassification of the position to obtain a person with the necessary qualifications and proven management experience, prior to the Special Audit. The reclassification has been agreed to by The Civil Service Commission. The Manager of Collections should be hired in December.

c. Communication

Our interviews with staff clearly disclosed a need to improve the communications process within the Division. We observed that staff were unclear as to their specific duties under the recent reorganized structure and had only general information regarding their roles and responsibilities. There was also a general concern identified that staff have not been kept well informed of the ongoing progress of the reorganization occurring over the past two years. Other areas identified for improved communication included how duties of staff relate to the overall mission of the Division, divisional staff's understanding of the role of the Special Investigations Unit and the use of a special solicitor.

For any organization to operate in an efficient or effective manner clear, open and timely communication is imperative. Staff need to understand their roles and responsibilities within the organization.

Without a constructive communication network in operation, the operational efficiency and effectiveness of an organization is reduced. Staff morale and motivation is also adversely affected by weaknesses in the communication process.

We recommend that management improve communication within the Division.

Comments of Officials

Management has developed communication processes between various functions and Branches that has improved management's communication with staff and between staff.

d. Documentation

Documentation should be in place for policies, plans, guidelines, instructions, recommendations and decisions reached.

We observed that standards for the organization and content of taxpayer and other files and other general documentation requirements have not been formally developed and communicated to staff.

Documentation standards assist in providing direction to staff as to the objectives of work being done, how work is to be undertaken, information that should be maintained and in the consistency of information among the statutes.

We noted three instances where file documentation needed to be improved. These include: the development of consistent audit documentation standards for all Acts; improvements to file documentation to support audit objectives, procedures, and findings; and improvements to file documentation regarding the Special Investigations Unit.

We recommend that the Division review its documentation practices to assist staff with their work.

Comments of Officials

The corrections required to address noted documentation weaknesses were being addressed in the Audit area, are being addressed in the Special Investigations Unit, and will be addressed in the Administration area as Performance Management Systems are developed. These are significant, necessary and long overdue tasks that management recognized and intended to undertake after instituting the new functional organization, a priority task.

e. Security

We observed areas in which general security must be improved.

Although access to most first floor general offices is restricted from the general public by special locks, access to certain other taxation offices is not so restricted. Although locks are present and signage is provided at each door on these other floors, the doors are not locked.

In addition, although interior office doors generally have locks, personal preference dictates whether they are locked or not. There is no policy in this regard.

Our review disclosed that security policy and procedures should be improved for the access to the file storage room and issuance of files. Files that have been removed from the file room are particularly prone to unauthorized access. We noted taxpayer files, computer files and reports on and beside desks and in unlocked file cabinets.

Without appropriate security practices in place, the possibility exists for unauthorized personnel to access files.

These weaknesses, together with the fact that confidential information was obtained by persons outside the Taxation Division, necessitate a review of security policy and procedures throughout the Division. This would include not only the Norquay Building premises but also security arrangements when at taxpayer locations, automobiles, etc.

We recommend that the Division review its security requirements and issue appropriate policy directives.

Comments of Officials

Many aspects of the security with regard to file room storage and the issuance of files have already been set in motion and action plans have been developed for increasing the level of security over taxpayer files and other documentation.

3. Reporting, Controlling, Evaluating

It is important for any organization to have effective reporting, controlling and evaluating practices in place so that staff with assigned responsibilities can demonstrate appropriate accountability for responsibilities delegated to them and that operations can be effectively managed.

Management reporting should supply results oriented information on operational performance. The controlling process involves managers monitoring and controlling operations. They compare actual performance against expected key results and analyze the cause of any deviation so that necessary corrective action can be taken. Evaluating involves reviewing activities to learn from past decisions and to apply this knowledge to future activities.

a. Reporting

Because the planning process has not been developed to the point where specific objectives are established, the management reporting system cannot be as effective as expected.

The Division has a management reporting system in place and produces a number of reports for collection purposes and management's review. However, significant improvements are required. The improvements would make the reports more meaningful and would enhance management's ability to quickly review and analyze the reports.

A number of reports are generated each month by the various branches and used by the collection area for collection purposes. The reports are also used for reporting to management. These include Retail Sales Tax Arrears report, Listing of Active Businesses with the Largest Sales Tax Arrears, List of Large Debit Accounts over $750 and other aged arrears reports.

Many of the reports generated are in formats which make them unusable without extensive review and analysis. Certain of the reports produced are in account or vendor number order and do not provide an immediate priorization of accounts. No priority is given to dollar amount. These reports should be improved to provide priority to dollar value of the accounts, inclusion of delinquent returns, aging of the accounts, reasons for the balance (ie. return filed without remittance, NSF cheques, and audit), postdated cheques on hand, etc.

The Retail Sales Tax Arrears report only includes those accounts classified as "active". Any accounts that have been classified as inactive, bankrupt, etc. are excluded. In our view this is incomplete reporting. All significant accounts should be included.

Aged arrears reports should include interest owing, information on accounts over 3 months old, and a reconciliation of the current report to the prior months' report for account additions and deletions, etc.

The Health and Post Secondary Education Tax Levy aged arrears listing allocates the balances to the months in which the liabilities related and not to the period when they are identified. Thus if a liability is established now from a recent audit but the taxes due cover a period prior to three months, the aging distribution will reflect the amount in the over 3 months column. As a result, for example, the report at January 25, 1991 reflects 83% of the total receivables in the over 3 months category. This does not present a reasonable perspective of audit effort or of subsequent collection effort. As a result of these deficiencies, the report is of minimum use.

It is important that management receive accurate, timely information of sufficient detail for appropriate assessment, collection and other decision making.

We recommend that the Division review its management reporting system with a view to enhancing reports produced. We further recommend that once the Division has implemented an appropriate planning process, the management

reporting system be improved to supply results oriented information on operational performance.

Comments of Officials

See comments under "Controlling".

b. Controlling

A good management reporting system is required for an effective controlling function. Management must ensure that they adequately monitor and control operations. This is a primary responsibility of a manager. To assist them, it is important that they receive accurate, timely reports in sufficient detail for appropriate assessment and decision-making. The planning function must have developed objectives and short term goals for each of the Division's operations to be built into the reporting process for comparison with actual results.

We noted that generally the Division needs to improve its control over operations. As an example, a formal review process has not been developed within the Special Investigations Unit. The Manager, Special Investigations assigns files to the various investigators and may periodically discuss the particulars of a file but does not formally monitor or approve work plans, approach, actions, etc. or review files, reports and court briefs. We also observed that in the Special Investigations Unit there is no overall report of files under their control or results for the unit as a whole.

We acknowledge that the Manager, Special Investigations is in the process of developing policies and procedures for the Unit. We note, however, that the draft policies provided to us did not require significant manager involvement.

Problems regarding effective management control were also observed with audit, assessment and collection operations.

We recommend that the Division take steps to ensure that management is exercising effective control over operations.

Comments of Officials

As the Special Audit was done during the process of the reorganization, the deficiencies described were known and management is in the process of addressing the correction of these deficiencies.

The Division has requested an audit of the three computer systems to improve the management information system and to evaluate the effectiveness and efficiency of those rather old systems.

c. *Evaluating*

We observed that the following aspects of the evaluating function were lacking.

i) Collection evaluation

We identified that significant collection effort and time is expended in telephone and letter contact with taxpayers and, if appropriate, a Certificate of Debt is registered against real property registered in the name of the taxpayer. However, certain sections of The Retail Sales Tax Act go unused. Specific provisions of the Act which are not utilized include those regarding lodgement of a bond, cash or other security, and the suspension of registration. Statistics are not maintained as to use made of the various collection procedures. Consequently, evaluation of the collection process is made more difficult.

The Division needs to have an appropriate process in place for the ongoing, formal review of the effectiveness of collection practices and procedures.

The lack of effective evaluation practice was also noted in the audit area, the assessment area and the Special Investigations Unit.

A number of items were identified through staff interviews which could be addressed as part of the assessment of the collection practices and procedures. Such items include; handling of new applications for taxpayers setting up new businesses while an account is uncollected from prior activities, assessment of a fee for NSF cheques, increased penalty and interest charges, review of taxpayers who are Manitoba Liquor Control Commission licensees for possible cancelling of a liquor license if taxes are not paid, review of methods to speed up prosecution, etc.

We recommend that a formal evaluation system be developed which would effect a regular assessment of collection procedures and practices used at that time.

Comments of Officials

The weaknesses described were known to management and corrective procedures were in the process of being implemented. Implementation has been hampered by previously described delays in the reorganization of the collection area that required hiring the Management of Collections.

Even with such weaknesses, the diligence of staff is revealed in that retail sales tax collections ranked third best in Canada.

ii. Staff performance appraisals

We noted that staff performance review practices need to be improved. Although staff performance is done on an informal, ongoing basis throughout the year for all staff, a formal Division-wide performance evaluation process has not been implemented. As a result staff have not had their performances appraised on a consistent or timely basis.

A consistent approach should be utilized by management and supervisory staff throughout the Division.

Standards of performance must be established as an integral part of a performance management process. The appraisal process necessitates ongoing observation and documentation of variances from established standards and will assist in identifying staff development and training needs.

Appropriate and timely evaluation of all staff is a necessary tool for effective performance assessment. The criteria on which an employee is to be evaluated needs to be clearly understood by both the employee and employer. This is necessary to assist in minimizing misunderstandings which may subsequently occur.

We recommend the Division work to develop appropriate performance appraisal policies and to implement an appropriate appraisal system.

Comments of Officials

Management has recognized the need for effective and regular performance appraisals before the Special Audit and had requested the Human Resources Branch to provide necessary training for all supervisory personnel, which is in process.

iii) Training and development

Part of the evaluation process is determining the training and development needs of staff. This area needs improvement.

The training and development of staff are important aspects of human resource management. In order for staff to appropriately carry out their duties and responsibilities, they must be properly trained. Training is not limited to formal classroom training. Varied work assignments, a conscious development of role models, succession planning and on-the-job training also contribute to training and development. Improved job-related skills can result in increased productivity. A consistent message can also be communicated at all formal training sessions thereby nurturing a healthy corporate culture. New skills and knowledge can be provided to staff within the framework of mid or long-term objectives.

The reorganization of the Division has created numerous needs for training and development. Collections staff need to be trained in all taxation statues. New collection procedures and techniques will have to be learned. Although the staff */have attended some training and informational sessions resulting from the reorganization, formal, proactive training and development plans do not exist. Similarly, our review of the audit area indicated a need for the ongoing development of technical skills, training in management practices, training with respect to revised legislative requirements and as a result of the functionalization, a need for assessors to become familiar with other taxation acts.

The training and development activities should be linked to the overall plan for the department. In order to evaluate training results and improve future training decisions, results should be measured against planned objectives. In addition, individual training needs can be identified and assessed during staff performance appraisals.

We recommend that each functionalized branch of the Division develop a training and development plan which should be supportive of planned objectives.

Comments of Officials

Staff training required due to functionalization was being done prior to and shortly after April 1, 1991.

A survey of career goals and requested training has been distributed to all supervisory personnel, received and evaluated.

Training needs are being identified during staff performance appraisals.

Senior management training needs have been identified but have yet to be addressed.

Department of Health

Brandon Mental Health Centre

Introduction

The Brandon Mental Health Centre, an accredited psychiatric facility for the delivery of mental health services to Western Manitoba, was first opened in 1891. The Centre provides a wide range of mental health services, including in-patient, day treatment, out-patient, and follow-up programs; and sponsors a Psychiatric School of Nursing. The in-patient load of the Centre increased to a high of 1682 in 1954, with a staff complement

of approximately 450. The in-patient population then gradually declined to a fairly constant level of just under 400 in-patients. Offsetting this reduced in-patient load has been a major shift to the provision of mental health services on an out-patient basis. For the 1991 fiscal year, the Centre handled approximately 12,000 out-patient contacts.

In 1988, 100 patients were transferred to the Rideau Park Personal Care Home, which is being operated as a satellite of the Centre. Since that time, the in-patient population at the Centre has been relatively constant, in the range of 250 - 300. The patients transferred to Rideau Park were those who were able to function in a personal care home setting. Generally these are patients who are ambulatory, and who are capable of assuming a little responsibility for their own care. The Brandon Mental Health Centre also operates a Psychogeriatric Assessment Unit as a satellite operation, located in the Brandon General Hospital.

The Centre's catchment area includes the entire Westman and Parklands regions, and the western half of the Central Region of Manitoba. In addition to providing residential care and treatment for acute, medium and long-term stay patients, the Centre also functions as a provider of community mental health services to Brandon and the surrounding municipalities. These services are provided through the Child, Adolescent and Adult Outpatient Departments of the Centre.

The Brandon Mental Health Centre is essentially funded by the Province of Manitoba, through the Mental Health Division of the Department of Health. The Centre receives less than 1% of its annual funding from non-governmental sources. The total funding commitment to the Centre for the March 31, 1991 fiscal year, as reflected through the appropriations of the Department of Health, was $19,565,400.

Objectives and Scope

The Office of the Provincial Auditor undertook a project audit of the Brandon Mental Health Centre. The Centre's management practices were reviewed and compared with the standards for management set out in the Management Practices Guide issued by the Government of the Province of Manitoba. One objective of the audit was to determine if the Centre had adequate practices, policies and procedures in place to ensure accountability for, and protection of, public funds. It is important to note that the objectives of the Project Audit did not encompass the evaluation of the Centre's programs. We did audit the Centre's management practices to determine if management itself was in a position to evaluate the Centre's own programs. A further objective was to determine if the Centre was complying with its Legislative authorities.

The Brandon Mental Health Centre operates under, and reports to, the Mental Health Division of the Department of Health. In order to complete our Project Audit of the Centre, it was necessary for us to meet with senior officials at the Mental Health Division, and to conduct a limited audit of certain aspects of the Division's operations.

Overall, we were satisfied that the practices, policies and procedures used by the Centre were adequate to ensure accountability for, and protection of, public funds. Also, based on our audit of the Centre's fundamental authorities in relation to its practices, policies and procedures, we did not observe any instances where the Centre was not complying with its authorities. During our audit we did note that there were opportunities for the Centre to improve its operations. The following sets out our observations and recommendations for improvements. The recommendations offered are those which we feel are prudent and practical for the Centre to implement.

Observations and Recommendations

Planning

We recommend that the Mental Health Division continue with its recent efforts to improve its planning practices, and implement a proactive planning process. The planning process must be sufficiently detailed to give appropriate consideration to the issues, needs, risks, and resource requirements of the Division, and of the large number of communities and individuals to which it provides its services.

Once an appropriate and proactive planning process is in place at the Divisional level as a result of the changes currently in progress, we recommend that the planning processes at the Brandon Mental Health Centre then be reviewed and up-graded. The planning done at the Centre should provide an appropriate linkage and support to the overall goals and objectives of the Division; and should help to improve communications between the many components dealing with the provision of mental health services in Manitoba.

Comments of Officials

The Mental Health Division has been actively involved in putting together a planning process that will produce plans which will satisfy the conditions of this recommendation. The Division has:

- established a provincial responsibility centre for all mental health services, which includes the responsibility for planning, fiscal requirements, evaluation, etc.,
- structured the Division in such a fashion that all services that are delivered by the Manitoba Health (Provincial Mental Health Centres, regions, etc.) relate to one specific responsibility authority, and
- established a functional relationship between those services that are funded by Manitoba Health through M.H.S.C., and those delivered by Manitoba Health through the various mental health centres, regional offices, etc.

In addition, over the past year the Division has developed:

- a principles and policies document (value statement) which provides a rationale for planning, and

- a strategic plan in draft form which is currently being studied at the Departmental level.

Once the strategic plan for Mental Health Services in Manitoba is approved, the role and function of the Brandon Mental Health Centre may change significantly. At that time the planning processes at the Centre will be reviewed and upgraded to the appropriate levels.

Organizing

1. *Organizational Relationships*

   Due to a vacancy in the position of Director of Clinical Programs, we noted that the Chief Executive Officer of the Centre has an unusually large number of positions reporting directly to him. We recommend that, once the Division's re-organization is complete, consideration be given to re-organizing the Centre's management staff. The Chief Executive Officer should be able to spend more time on important issues and problems, and less time on the routine day-to-day staffing and personnel problems which currently occupy too much of his valuable time.

2. *Reporting Relationships*

   We noted during our audit that the reporting relationships between the Brandon Mental Health Centre and the Department of Health are not clearly understood by, or communicated to, the Centre's staff. We recommend that the Division continue with its efforts to recruit a Financial Officer. Once the Financial Officer position is filled, we further recommend that the Division move as expeditiously as possible to complete its clarification of the reporting relationships between it and the Brandon Mental Health Centre. The revised organizational reporting relationships should be communicated as soon as possible to the Brandon Mental Health Centre, to ensure the efficient communication of information and concerns between the Centre and the Division.

3. *Staff Recruitment*

   We observed that for the last few years the Centre has been operating with approximately 40-50 vacancies in its approved staff positions. Recruitment has been an ongoing problem for the Centre, especially in some of its key operating areas such as Psychiatry, Social Work, and Occupational Therapy. Specifically, the Centre has had difficulty in receiving approval from the Division to recruit a Quality Control Coordinator because this position has not been classified at a sufficiently senior level to secure an individual with appropriate qualifications for this important position.

   We recommend that the position of Quality Control Coordinator, currently vacant, be filled as expeditiously as possible. The position should be filled at a level sufficiently senior to enable the function to help protect the integrity of the Centre's

operations and preserve its accreditation status. We further recommend that the Centre be provided with a realistic budget in terms of staff positions. If staff positions are not needed, or not planned to be filled, they should be permanently removed from the Centre's personnel salary budget; they should not be retained to use as a means of funding other operating costs.

4. *Authority for Policies and Procedures*

During our audit, we noticed that there was confusion regarding the Centre's Executive Committee authority to develop the policies and procedures adopted by the Centre. Although the Centre's management have attempted to clarify this situation, the lines of authority in the area of setting policy and procedure at the Centre are still unclear.

We recommend that the Division complete its audit of the authority and reporting lines between itself and the Centre as soon as possible. In particular, the Division should tell the Centre's management if the policies and procedures established by the Centre's Executive Committee require the formal approval of the Division. If required, the Centre should then arrange for appropriate approvals of policies and procedures.

5. *Budget Process*

We also noticed that the current organizational philosophy does not involve the Centre's managers actively in the budget and financial management processes of the Brandon Mental Health Centre. This same situation was reported by the Internal Audit Department of the Department of Health in their January, 1988 internal audit of the Centre's financial systems.

We did note that there has been some improvement in the financial budget and reporting area in the past year. Brandon Mental Health Centre appointed a new Administrator in 1990, and budget allocations are now being made at the Departmental level within the Centre. Monthly internal financial statements are now being prepared and distributed to the Centre's management, so the Department Heads are informed on a timely basis regarding results of their area of the operation relative to their budget allocations. However, the Centre's Departmental management still have little direct front-end input or participation in the Centre's budget processes.

We recommend that the Centre's management personnel be assigned a much more active and participatory role in the budget processes of the Brandon Mental Health Centre. The managerial involvement should begin early in each budget cycle, prior to the initial request of the Centre for financial funding from the Department of Health through its estimates process. This detailed involvement would require the Centre's managers to clearly define their Department's priorities, in quantitative terms, so that line-by-line budget detail can be developed for each

of the Centre's programs prior to the start of the fiscal year. In this manner the Centre's management would be much more committed to the budget, and would assume more responsibility for controlling and monitoring the financial resources allocated to their areas. Increasing the role of the Centre's managers in the budget process to such an extent might require some additional training. We also recommend that the necessary training be provided to the Centre's managers to enable them to interpret financial data in a meaningful fashion, and assume more direct responsibility for the control of the financial resources allocated to their areas of influence.

Reporting

There are several areas in which the planning and organizing functions at the Brandon Mental Health Centre should be improved. Given the limitations noted in the planning and organizing functions at the Centre, the effectiveness of the reporting processes at the Brandon Mental Health Centre is also limited. In particular, the Centre's management reporting systems are hampered by the lack of a well-defined and reasonable budget which ties in to the plans for the Centre, and for the Mental Health Division. Our audit of the Centre's budgets and monthly financial status reports revealed several areas in which expenditures are being charged to the Brandon Mental Health Centre, even though the Centre receives no direct benefit from the activities. Such inappropriate cost allocations serve to illustrate the limited usefulness and effectiveness of the Centre's budgets and financial reports.

With the previously noted limitations in the Centre's planning and organizing functions, and considering the deficiencies noted in the budget process, the reporting system currently in place at the Brandon Mental Health Centre is of limited effectiveness. The Centre must be provided with a detailed and appropriate budget which is linked to, and supportive of the overall plans of the Division. As was noted earlier, this budget process should involve the Centre's management directly. Once the budget for the Centre is appropriately defined and approved, then the Centre's management reporting system can prepare meaningful status reports on each of its operating areas.

We recommend that the budget process at the Centre be modified once the necessary planning and organizing improvements are made at the Division and at the Centre. The Centre must achieve a departmental oriented participatory budget process. This should result in the Centre having a meaningful budget, integrated with the plans of both the Division and the Centre. Once a meaningful budget is in place for the Centre, we recommend that the Centre's management reporting systems then be revised as well. Reports comparing actual and budgeted expenditures for each program area should be provided to the Centre's managers on a monthly basis. The managers should be required to comment on over and under expenditures, and should provide information on any anticipated changes in spending. In this way, the management reporting system will facilitate timely management and control over the expenditures and activities of the Centre. Also, improved consolidated reports could then be prepared by the Centre,

which would be more useful and meaningful for the management at the Mental Health Division of the Department of Health.

Controlling and Evaluating

At the time of our audit, none of the three prerequisites to an effective management control system were in place. There was no detailed, well-documented short or long range plan in place for either the Centre or the Mental Health Division. As well, the management reports prepared by the Centre, while useful, are of limited effectiveness until the planning and budgeting processes at both the Division and the Centre are more refined. As noted in the organizing section of this report, there are several improvements needed for the Centre to achieve a properly defined and integrated organizational structure. There is no identification of key expected results and the budget process at the Centre also needs considerable improvement before the management reports can be utilized in a meaningful fashion for exercising management control.

Similarly, the evaluating process at the Centre cannot be effective until the required improvements are made to the planning, organizing and reporting functions of the Centre. Prior to any meaningful evaluation processes being put in place at the Centre, a strategic plan must be developed for the Division, as a basis for identifying program requirements and key results indicators at the Centre itself.

We recommend that, once the needed improvements are made to the planning, organizing, and reporting processes, the Centre strengthen their management practices with regard to the controlling and evaluating processes. Efforts should be made to assure that the controlling and evaluating processes established comply with the standards and prerequisites set out earlier in this section of the report. Effective controlling and evaluating functions would enable the Centre to properly monitor, control and evaluate its operations, and to demonstrate proper accountability for the resources allocated to its programs and activities.

Other

1. *Performance Appraisals*

   At the time of our audit, we noted that performance appraisals for the Centre's senior management were not being completed on a regular and timely basis. As noted in the organizing section of this report, a factor contributing to this situation was the numerous positions reporting directly to the Centre's Chief Executive Officer.

   We recommend that regular appraisals be performed for the Centre's senior management staff by the Chief Executive Officer of the Centre. Changes recommended in the organizing section of this report, if implemented, would facilitate this recommendation because fewer positions would be reporting directly to the Centre's Chief Executive Officer.

2. *Donation Policy and Procedures*

The policy and procedures related to undesignated donations must be clarified. In particular, the term "of direct benefit to patients" should be examined carefully and guidelines established to provide the Centre's management with the necessary information so that they can utilize donated funds effectively.

We recommend that the Mental Health Division, in conjunction with the Brandon Mental Health Centre, clarify the policy to be used by the mental health centres in the area of undesignated donations. Terms such as "direct benefit to patients" should be more precisely defined and guidelines should be provided to eliminate conflicting interpretations or inappropriate uses of undesignated donated funds.

Comments of Officials

Officials of the Brandon Mental Health Centre, and at the Mental health Division of the Department of Health agreed with our recommendations. Currently, actions are in process to implement these recommendations.

Manitoba Support Services Payroll

Introduction

The Office of Continuing Care falls within the Department of Health. One of Continuing Care's major components is the Home Care Program. This Program provides Home Care to those people who might otherwise require institutionalization. The philosophy of the program is that individuals are more likely to maintain health and well-being in the familiar surroundings of their own home. The Home Care Program provides the necessary services to help individuals remain in their homes. The Home Care Program uses the Manitoba Support Services Payroll (MSSP) to schedule and to pay their direct service staff for providing the necessary services.

The Department initiated the development of the present MSSP system primarily as a result of the implementation of the Manitoba Home Care Attendant's Agreement in 1988. At the time, the system in place, the Mohawk system, could not handle the increased volume or provide the additional payroll information required under the Agreement. A main frame payroll system was developed to meet the new demands. The Department of Health is the main user of the system and is responsible for the day to day operation of the computerized system. Due to labour management issues and service delivery changes, the MSSP is in a constant state of change.

The MSSP system provides payroll services for about 4300 direct service staff employed by the departments of Health and Family Services throughout 8 regional offices in the Province servicing more than 12,000 clients.

Funds for Home Care Assistance are voted in a separate sub-appropriation in the Department of Health. Expenditures for the 1990/91 fiscal year exceeded $50,000,000.

Objectives and Scope

The objectives of our audit were:

- To assess the adequacy of the existing payroll system.
- To determine that internal controls are appropriate and reliable to ensure that proper payments are made.
- To determine that payments are in accordance with applicable authorities.

The Canadian Institute of Chartered Accountants defines internal control as "the plan of organization and all the co-ordinate systems established by the management of an enterprise to assist in achieving management's objective of ensuring, as far as practical, the orderly and efficient conduct of its business, including the safeguarding of assets, the reliability of accounting records and the timely preparation of reliable financial information". Our review assessed the MSSP's existing payroll system against the above criteria.

We reviewed actual payroll documents in the central payroll office and in one regional office for pay periods in March 1991.

Observations and Recommendations

Our review indicated that the internal controls in place were generally appropriate and reliable to ensure that proper payments are made. We also concluded that payments were made in accordance with applicable authorities. However, we noted several areas where the regional office's practices should be strengthened.

Documentation of Program Monitoring Practices

The Home Care Program provides a number of specialized services. Due to the nature of the Program and the relationship between its clients and its workers, an essential element of management control is an on-going review and evaluation of these services. Such a review is an important step to assure Management that Program expenditures are appropriate. Established departmental procedures require the resource coordinators to maintain on-going contact with the direct service workers and to visit each worker on-site at least quarterly, to evaluate their performance. Our audit indicated an absence of documentary evidence to support this requirement. We were unable to obtain appropriate documentary evidence as to the extent, frequency or the result of the visits. While it was evident that on-going contact, by telephone, is maintained with the workers in the day to day operation of the Program, appropriate documentary evidence was either not available or insufficient.

The MSSP system is a complex, document-driven system. Producing the payroll every two weeks requires significant time and effort and the resource coordinators have a major role in the process. We recognize that it is difficult for the resource coordinators to find the time to fulfil their responsibility of conducting on-site visits to the direct service workers. Without appropriate documentary evidence, Management cannot be sure these important procedures are being carried out.

We recommend the Department introduce appropriate procedures to provide the necessary documentation. Specific forms should be developed for use in all regional offices. Such forms would provide the necessary documentation and ensure Management that this important control procedure is performed consistently in all regions.

Comments of Officials

There is agreement that necessary documentation needs to be in place to indicate that resource coordinators perform this quarterly visit with direct care staff. There is a form available for their use or they can simply document the review on the employee file. There is, therefore, no need to develop a new form for this purpose, rather there is a specific need to have a staffing complement of resource coordinators sufficient in number to manage the program standards.

Timely Update of Scheduling Model

One of the MSSP system's most critical controls is the computer edit that matches the direct service workers' schedules with the workers' time sheets. These documents account for time in 15 minute intervals. Any variance generates an exception report. Since a resource coordinator must manually examine each variance report, reconcile all variances, mainly by referring to the schedules and approve corrections to be re-entered into the system, accurate and up to date schedules are a critical part of the process.

The schedules cover a two week pay period and are constantly being referred to in the day to day operation of the Program. Due to the nature of the Program, the schedules are continually changing. The designed procedure is for the scheduling clerks to record manually all changes on the existing schedule and to hi-lite the changes as they are inputted into the system. This procedure was implemented not only to minimize variances with the time sheets but also because the system has a history of significant downtime, which severely hinders the day to day operation of the system. If downtime occurs, a current schedule can only be reconstructed if any changes have been recorded manually. Since the schedules cover a two week period, the absence of a current schedule makes the reconciliation process much more difficult and time-consuming.

Our review indicated that changes to the schedules, particularly for new assignments, are not being input promptly. Also, that the designed procedure to manually record all changes was not being followed. To minimize the number of variance reports and enable the resource coordinators to make more efficient use of their time, the schedules must be updated as changes are made.

Variance reports are a normal consequence of the system. However, adherence to the designed procedure in recording of all changes to the schedule will help reduce the number of variance reports. It will also simplify the reconciliation process by providing a more accurate schedule. Finally, it will provide an important element of disaster recovery in the event of computer failure.

We recommend an increased effort be made to update the computerized schedules for all changes as they happen.

Comments of Officials

There is general agreement with this recommendation. The computer system has, as part of its design, a down-time procedure where the user may request a hard copy of employee schedules at regular intervals to be used when the computer is down. This form of manual record keeping is used only during down time and should not be used all the time. To ensure the integrity of the system and accuracy of the availability module the on line schedules should be updated as soon as the changes occur, however due to limited staff and equipment this is not always possible. In these situations staff will note the changes and update the computer as soon as possible. Presently, the system is experiencing very little downtime.

Document Destruction and Retention Policy

The MSSP system generates a significant number of reports and supporting documentation. Our review indicated that regional office staff did not know which reports had to be retained or for what period of time. Significant time, effort and space is involved in the filing, maintenance and storage of the various reports. The development and communication of an appropriate policy would promote consistency and efficiency.

The Department of Finance has a specific policy in place regarding the retention of the central payroll records. For documents other than payroll, the Provincial Public Documents Committee sets document retention guidelines.

We recommend the Department establish an appropriate documentation retention policy for the MSSP. Departmental officials should review the MSSP documents in view of existing Government policies, develop an appropriate policy and obtain the concurrence of the Provincial Documents Committee. Finally, we recommend the Department communicate the policy to all regional offices to ensure consistent application.

Comments of Officials

The Management Information Systems area within Manitoba Health will be undertaking the task of developing a documentation retention policy for M.S.S.P. This involves the establishment of a Records Authority Schedule(s) for input documents, electronic files and output generated by the system.

Procedures Manual

The MSSP system has an appropriate "Terminal Operator's Manual" and "Systems Procedure Guide". These manuals are valuable to the payroll staff in understanding the data entry requirements for the computerized payroll system. However, a payroll procedures manual is needed to support the payroll clerks in the day to day preparation of the actual payroll. Many payments result from an interpretation of the direct service workers' collective agreement. Such a manual would promote efficiency and consistency amongst all regional offices.

There is also a detailed "Continuing Care Client Manual" to provide direction in the initial assessment and development of the care plan. However, there is a need for a workers' service manual to assist the resource coordinator in assigning the appropriate staff and tasks in accordance with the care plan.

Procedure manuals assist management in ensuring appropriate procedures are in place. In addition, detailed manuals are useful in the training and guidance of staff and provide a benchmark against which staff can be measured.

We recommend the department develop the additional manuals as soon as possible.

Comments of Officials

A Personnel/Payroll Procedures Manual has been produced in draft form and is presently in the process of being edited and updated to reflect changes that have occurred since its development. It is anticipated that the manual will be ready for distribution within six months. This manual is to be used by resource coordinators as a personnel manual with regard to all agreements and to ensure consistent practices.

At this time we do not feel there is a need for a Workers Service Manual as we believe tasks are appropriately assigned and monitored.

Department of Justice - Headingley Correctional Institution

Introduction

The Headingley Correctional Institution is one of seven correctional institutions within the Adult Correctional Services branch. Adult Correctional Services is one of two branches in the Corrections Division of the Department of Justice.

Adult Correctional Services, through its seven correctional institutions, is responsible for the care and custody of adult offenders sentenced to incarceration for two years less a day as well as those offenders who are required to remain in custody pending a court decision on charges.

The Headingley Correctional Institution is Manitoba's largest correctional facility. It houses adult male inmates and has a rated inmate capacity of 336. In fiscal year 1991 the inmate population ranged from a low of 250 to a high of 400.

The total funding commitment to Headingley for the March 31, 1991 fiscal year, as reflected through the appropriations of the Department of Justice, was approximately $9,400,000. The majority of these funds paid for salary costs, which were approximately $7,600,000. The approved staff person years for Headingley were 215 for the March 31, 1991 fiscal year.

In 1983 the Review Committee on Adult Corrections in Manitoba issued a report on the Headingley Correctional Institution. The report was very critical of both the Adult Correctional Services Branch and the Headingley Correctional Institution. Significant changes and improvements occurred as a result of this report.

Objectives and Scope

Under authority of Section 12.1 of the Provincial Auditor's Act, we performed a project audit of the Headingley Correctional Institution (Headingley). Our main audit objective was to review management practices to determine whether Headingley was properly organized, with adequate policies and procedures to ensure effective accountability and protection of public funds and whether Headingley was monitoring the achievement of its goals and objectives and evaluating its programs. Another objective was to determine whether Headingley was complying with applicable Legislative authorities.

It is important to note, however, that our audit did not include an evaluation of Headingley's programs.

Headingley reports to the Adult Correctional Services Branch of the Corrections Division of the Department of Justice. As a result, we considered it important to assess the impact of this reporting relationship on the operations of Headingley. Accordingly, we met with senior officials at the Corrections Division and at the Adult Correctional Services branch to conduct a limited review of the planning and organizing activities of the Division and the Branch.

Observations and Recommendations

We noted several opportunities for management at Headingley to improve their management practices. We identified weaknesses in the management functions of planning, organizing, reporting, controlling and evaluating. Our findings are detailed in

the sections below. As a result of these weaknesses, we have concerns about Headingley's ability to ensure effective management over the accountability and protection of public funds.

Based on our review of Headingley's fundamental authorities in relation to its practices, policies and procedures, we did not observe any instances where Headingley was not complying with its authorities.

Certain of our observations and recommendations for improvement also relate to the operations of the Division and the Branch. We feel the recommendations made are prudent and practical. They should be considered by both the Branch and Division for their own operations as well as the operations of each of the other institutions.

Planning

Appropriate planning is essential to direct an organization's operations and to assist the Government with funding decisions. A proactive, complete planning process involves strategic planning, mid-term planning, resource allocation and operational planning.

At Headingley these planning activities are generally not performed and documented in sufficient detail. We also observed that certain elements of strategic, mid-term, resource allocation and operational planning are also not performed at the Division or Branch. Until the planning processes at the Division and Branch are appropriately developed and implemented, the effectiveness of planning efforts at Headingley may be limited.

Strategic Planning

1. *Role and Mission*

   A role and mission statement for Headingley has not been drafted. We noted that the Corrections Division has been actively working on a role and mission statement for the Division and that all levels of management within the Division, the branches and the institutions participated in the development of the draft divisional role and mission statement. However, without individual role and mission statements, the unique elements of each institution may be inconsistently and poorly communicated. The role and mission statement for the Corrections Division should form the basis for subordinate role and mission statements.

   We recommend that Headingley initiate appropriate action to develop a role and mission statement.

2. *Needs Assessment*

   Headingley has not performed a needs assessment. The Division, however, has taken an initial step in performing a comprehensive, coordinated and documented needs assessment. At the strategic planning session in April 1989, management

personnel from the Division, the branches and the institutions identified certain general environmental factors for the Corrections Division. Greater effort is required, however, to relate these factors to specific institutions, to analyze their validity and to assess their impact. An incomplete needs assessment may result in inappropriate priorities at all operating levels.

We recommend that the Division complete the needs assessment by analyzing the validity of identified factors and assessing their impact on each individual correctional institution. The results of the needs assessment should then form an integral part of Headingley's planning process.

3. *Long-term Goals and Objectives*

Specific long-term goals and objectives for the Headingley Correctional Institution have not been developed. We also noted that the Division has not developed and documented long-term goals and objectives. However, the Division has recognized the need to develop long-term goals and objectives and is pursuing this activity. The strategic planning process for the Division and the Branch must first be in place before a comprehensive and meaningful strategic plan can be developed for Headingley.

Subsequent to the completion of a needs assessment and the determination of long-term goals and objectives by the Division and the Branches, we recommend that Headingley formulate priorized long-term goals and objectives for each of its operating areas. Once long-term goals and objectives are established, Headingley should identify key results indicators for assessing the achievement of the long-term goals and objectives. Central review and coordination will be required to ensure consistency between institutions, branches and the division.

Mid-term Planning

Mid-term planning for Headingley requires further development. We noted that the mid-term plan for Adult Correctional Services and the redevelopment plan prepared for Headingley both include major initiatives relating to Headingley. However, the initiatives in the Branch's mid-term plan do not incorporate all operating areas at Headingley and the redevelopment plan relates primarily to the physical plant. In addition, neither document adequately considers resourcing and scheduling. While these planning documents contribute to mid-term planning at Headingley they do not clearly define or communicate, in a comprehensive manner, Headingley's mid-term goals and priorities and its plan of action to ensure success. As a consequence, management's ability to control operations may be compromised.

Subsequent to the determination of long-term goals and objectives and the identification of key results indicators, we recommend that Headingley prepare an appropriately detailed mid-term plan. To ensure consistency with Branch objectives and direction, we recommend that Adult Correctional Services provide central review and coordination.

Operational Planning

Operational planning for Headingley is comprised of annual objectives for senior management and the annual financial budget. While these items represent integral components of an effective operational plan several key components still require development. If these components are not developed the appropriateness of senior management objectives cannot be readily supported nor can the monitoring of programs against the plan be readily facilitated.

We recommend that Headingley clearly identify current issues and needs, identify key results and measurement criteria for each objective and document schedules of significant activities for each objective.

Organizing

Structure

We noted a clear reporting structure between the Headingley Correctional Institution and the Branch and between the Branch and the Division. This was an area of concern expressed in the 1983 report from the Review Committee on Adult Corrections in Manitoba.

At the date of our review of Headingley, we were advised that a major re-organization was being planned. We reviewed the existing structure and noted several areas of concern. While we were unable to review the final structure, we did review a series of proposed organizational changes. These proposals appeared to address our concerns.

Documentation

We observed that agendas and minutes are not prepared at Headingley for both the weekly senior management meetings and the weekly staff meetings. The management information system at Headingley relies heavily on the communication at such meetings. In our view, maintaining minutes would strengthen the communication process and facilitate the monitoring of decisions made and actions required. In addition, meeting time may be used more effectively if agendas are prepared and participants have an opportunity to adequately prepare.

We also observed that Headingley has not developed a system to ensure the regular review and update of policies and procedures. This would include the review of operational areas to determine whether policies and procedures are required. The recently completed Operational Review of the Headingley Correctional Institution, performed by the Chief Investigator for Adult Correctional Services, identified many operational areas in need of a policy directive. In our view, Headingley should not rely only on central reviews to identify policy deficiencies but should be proactive in assessing specific institutional needs. Without policy directives, inappropriate procedures may be implemented or inconsistencies may occur in the handling of similar situations.

We recommend that Headingley staff prepare agendas and minutes for regular management and staff meetings. We further recommend that Headingley develop a systematic process to identify policy development needs.

Staffing and Personnel

1. *Senior Management*

   Three of the four senior management positions at Headingley have been filled, for a period in excess of two years, on an acting or secondment basis. We do not consider this to be appropriate. In addition, a recently created senior management position is planned to be filled on a secondment basis. A prolonged acting status or secondment may weaken the effectiveness of management. Staff in acting status or on secondment may feel their positions are temporary and insecure and they may not feel mandated to institute change or unpopular directives. In addition, commitment towards the position by the incumbent may not parallel that of a permanent staff member.

   We recommend that Headingley arrange to have all management positions filled on a permanent basis. Secondment and acting status should be used only on a temporary basis.

2. *Personnel Policies and Procedures*

   In 1988 Adult Correctional Services initiated an Employee Performance Management System for implementation by all provincial correctional institutions. Based on our review of this system at Headingley, we identified that certain position descriptions were not reviewed on a timely basis and that performance appraisals were generally not prepared on a timely basis. Our review of policies and procedures to record and control overtime and sick leave at Headingley indicated appropriate controls in these areas.

   We recommend that a formal review process be developed by Headingley, appropriately coordinated with Branch efforts, to ensure positions most significantly affected by the re-organization are reviewed on a timely basis.

   We recommend that Headingley reassess the progress it has made in implementing the Employee Performance Management system. A more effective system of monitoring and controlling the preparation of performance appraisals should be developed. Training may be needed to assist managers and supervisors prepare timely and meaningful appraisals.

Reporting and Controlling

As discussed earlier, strategic, mid-term and operational planning at Headingley requires

further development. Until these planning processes are sufficiently developed, it is difficult for management at Headingley to effectively report upon and control operations.

We identified several significant aspects of Headingley's operations and reviewed the extent and nature of reports generated to monitor the operations of each of the significant areas.

We observed that several significant aspects of Headingley's operations are not sufficiently monitored with regular reports. In particular we note the following significant aspects which are not sufficiently reported upon: expenditure control, activity centre operations, inmate programming, case management, staff training and building maintenance. The lack of documented reports may significantly impact management's ability to effectively control operations and may also negatively impact the accountability process. In addition, senior management may be forced to generate data or rely exclusively on verbal communication. As a result, inadequate or inconsistent communication may occur. We acknowledge the expediency and practicality of verbal status reports and the role that can be played by committee, management and staff meetings in communicating issues and in discussing the status of various areas of concern. However, these verbal processes should be supported by periodic documented status reports that compare planned results against actual performance and present alternative courses of action to correct deviations.

A properly designed management information system should address differing information requirements at each level within the entity and ensure information becomes better analyzed, condensed and refined as it is transmitted up the entity hierarchy. We observed that many reports received at the senior management level do not adequately address senior managements' information needs. Information in these reports is not adequately summarized or analyzed to identify the cause of deviations from expected or prior performance levels. Recommendations or alternative courses of action are not presented. As a result, senior managers must convert these data reports to analytical documents and subsequently determine the alternate courses of action themselves. Not requiring middle managers or supervisors to prepare action reports represents an under utilization of resources and conveys the message that existing data reports are appropriate. Weak reporting also diminishes management's ability to effectively control operations.

We also observed that many operating and financial reports are not distributed to the managers directly responsible for the activity being reported upon, but rather, are routed directly to the Superintendent. As a result, managers may not be appropriately informed of all facets of their area of responsibility.

The Financial Status Report is a good example of the problems noted above. This report is prepared monthly and is distributed exclusively to the Superintendent. The Accounts Department, however, reports directly to the Deputy Superintendent. The Financial Status Report presents the budgeted and actual figures for all expenditures except payroll. It also projects expenditure levels to the year end and displays projected budget overruns.

Analyses, however, are not provided to explain the projected overruns and alternative courses of action are not presented. As a result, this document is subjected to significant additional analysis by senior management. In our view, financial reports comparing actual and budgeted expenditures for each activity area should be distributed to the activity heads. Each activity area would then review its expenditures and provide a variance analysis. The Accounts Department should then compile this information and provide senior management with a more meaningful Financial Status Report.

We recommend that Headingley reassess the information requirements of each manager and establish appropriate reporting and information collection systems accordingly. Headingley should seek an appropriate balance between documented and verbal reports. The re-organization provides an excellent opportunity to undertake such a review. The Superintendent should strictly reinforce the reporting structure through the redistribution of reports inappropriately addressed to him. This action will communicate his confidence in the abilities of his senior management team and reinforce specific accountability areas.

Evaluating

Program or activity evaluation is not normally performed by Headingley management. We noted, however, that certain reviews are performed on a Departmental basis. The Chief Investigator for Adult Correctional Services has recently completed an Operational Review of the Headingley Correctional Institute. The Internal Audit group of the Department of Justice has included Headingley in its schedule of future audits. Also, an analyst at Adult Correctional Services recently completed an organizational review of the administrative section at Headingley.

We recommend that the Headingley Correctional Institution initiate a process to critically review all aspects of its operations with the goal of improving efficiency and effectiveness, as well as reducing overall costs. Headingley should then identify those reviews for which it would require assistance from personnel at Adult Correctional Services. Management at Adult Correctional Services may wish to request areas for priority review.

Comments of Officials

Manitoba Corrections believes that the Provincial Auditor's Report is a positive one in that it contains many recommendations which, when implemented, should improve Institutional, Branch and Divisional operations.

Manitoba Corrections accepts the planning recommendations and will assess their applicability to the Division as a whole. As indicated in the report, a role and mission statement for the Division has recently been completed. Corrections has reservations about the proliferation of subordinate role and mission statements, unless these can be explicitly linked and circumscribed by the more global Divisional statement. With this proviso, subordinate role and mission statements for each institution and area office will be seriously considered.

Manitoba Corrections concurs with the Report's observation that a strategic planning process or framework is an essential element of organizational and management effectiveness. As such, the Division will actively seek to enhance its strategic and mid-term planning capacity. Particular emphasis will be given to the drafting of a long-term strategic plan for the Division as a whole (including needs and environmental assessments) to channel long-term, mid-term and operational planning with concomitant resource allocation for each of its constituent elements, including Headingley.

Manitoba Corrections accepts the observations and recommendations made by the Provincial Auditor with respect to Headingley's organizing function, reporting structure, documentation, staffing and personnel, as well as reporting and controlling and evaluation. Corrections believes that its recent initiatives with reference to unit management, institutional reorganization, operational reviews and the staffing of senior management positions respond to a number of the Provincial Auditor's concerns. Considerable room for improvement remains, however, and appropriate action will be taken at Headingley in a manner consistent with and responsive to the Provincial Auditor's Report.

Department of Labour

Accounts Receivable

The Department does not have adequate control of accounts receivable relating to Pressure Vessels, Boiler Inspections and Elevator Permits.

The existing management information system does not provide management with adequate control over accounts receivable. Aged accounts receivable reports are not prepared for review by management. The system produces the invoices before inspections take place. Consequently, if inspections are not made invoices must be cancelled. This complicates the process over accounting for revenues/receivables.

Collection efforts are not effective. Three reminders are sent at 30, 60 and 90 day intervals. If the invoices are still unpaid, a letter is sent indicating that the system may be turned off. However, systems are not turned off and the Department has not developed an effective collection alternative.

The lack of an effective accounts receivable/collection system increases the risk of errors and does not ensure the timely collection of accounts.

We recommend:

a) a control account for outstanding receivables be established;

b) an aged listing of accounts be prepared monthly in order to provide management and staff with up to date information so that appropriate action may be taken regarding delinquent accounts;

c) the Department prepare invoices after the service is provided; and

d) the Department improve collection efforts on outstanding receivables. The Department may need to further consider appropriate measures to enforce the Legislation under The Steam and Pressure Plants Act and Regulations and Elevator Act which provides that these facilities not be operated unless payment has been received.

Comments of Officials

Officials stated that they are continuing the process of developing a revenue management system. The new system is anticipated to be operational late in the current fiscal year. The new system will address all of our concerns regarding accounts receivable.

Department of Natural Resources

Fire Fighter and Tree Planters Payrolls

Introduction

Fire Fighter Payroll

The Fire Prevention Act of Manitoba delegates the responsibility for fire suppression on Crown Lands to the Department of Natural Resources. The Department's Regional Services Branch provides province-wide services to meet this responsibility. The Fire Fighter payroll system is an emergency payroll facility set up to provide immediate and direct payment to persons directly engaged in fighting fires. The Fire Fighter payroll operates outside the Department of Finance's central payroll system.

During the year ended March 31, 1991 4,926 cheques were issues to 2,306 fire fighters for a total expenditure of $1,216,119.

Tree Planters Payroll

The Department of Natural Resources Forestry Branch is responsible for the Forest Renewal Program. One of the activities of the Forest Renewal Program is the reforestation of Crown Lands. Part time employees are hired during the summer to plant trees as part of the reforestation program. The tree planters payroll was set up to expedite payments to these employees due to the short term nature of their employment.

During the year ended March 31, 1991, 486 cheques were issues to 193 employees for a total expenditure of $197,204.

Objectives and Scope

The objectives of our audit were to determine whether appropriate and reliable internal controls are being applied to the fire fighter and tree planters payroll systems and to determine whether the payroll payments were made in accordance with applicable authorities.

Observations and Recommendations

Our audit determined that the internal controls within the fire fighter and the tree planters payroll systems were appropriate and reliable and that payments were made in accordance with applicable authorities.

Water Power Rental Fees

Introduction

The Water Resources Branch of the Department of Natural Resources is responsible for enforcing and administering The Water Power Act and the related regulations. Water power rental fees are charged to Manitoba Hydro and Winnipeg Hydro based on the annual amount of hydroelectric power generation at each individual power plant. In 1990 there were fifteen power plants. Water power rental revenue was approximately $32 million.

Objectives and Scope

The objectives of our audit were:

1. to determine that the management practices and control processes over the assessment of water power rental fees are reliable to ensure the proper recording of the rental fee and,

2. to determine whether water power rental fees are assessed in accordance with applicable authorities.

The audit was carried out for the period January 1990 to December 1990.

Observations and Recommendations

We concluded that, with the exception of the three items below, management practices and controls over the assessment of water power rental fees were adequate and that the rental fees were being assessed in accordance with the relevant authorities.

1. Annual Billing of Power Rental Fees

The regulations to Thé Water Power Act require the billing of the water power rental fees on an annual basis. Billings are prepared in the first quarter of each calender year. This billing practice, in essence, provides the electric utility companies with 0% short term financing for the value of the fees incurred throughout the year. In 1990 this represents a loss of interest revenue to the Province of approximately $1,600,000. In calculating this estimate we used the Department of Finance's weighted average rate to borrow of 10.6%.

We recommend that the Branch determine a practical billing interval and amend the regulations accordingly.

Comments of Officials

We concur with the recommendations and will prepare a proposal to amend the regulations to The Water Power Act to provide for billing on a quarterly basis.

2. Verification of Hydroelectric Power Generation

The water power rental fees are based on the daily meter readings documented in the Monthly Power Reports. These reports are certified correct by the superintendents of each power plant. Periodic physical verification of the meter readings, however, is not performed by the Branch. Branch staff check the mathematical accuracy of the Monthly Power Reports and analyze the figures for reasonableness. These procedures, however, do not adequately compensate for the lack of physical verification because inaccuracies or errors in the readings presented will not be detected.

We recommend that the Branch physically verify, on a cyclical basis, the meter readings at each of the power plants.

Comments of Officials

We acknowledge the logic of the recommendation. We believe, however, that the data is reliable based on past observations of reported power generated and our continuing observations of streamflows available for hydroelectric power generation. Therefore we believe that the additional cost and demands on limited staff resources to implement the recommendation are not justified at this time.

3. Licenses

The Water Power Act and regulations require the issuance of an interim licence during the development of the power plant. Upon completion of construction and submission of the final plans by the licensee, a final licence is issued. The Act and regulations also make provision for the renewal of final licenses. We examined the existing licences for all the power plants. The final licenses with Manitoba Hydro relating to the Great Falls and Seven Sisters power plants expired in 1982. Renewal licenses have not yet been issued. In our view, a nine year renewal period is inappropriate. By allowing these plants to operate without licenses, the Branch is in contravention of its relevant legislation.

We note that the Branch has continued to collect water power and land rental fees for the two aforementioned power plants. While the water power rental fees have been assessed using the current rates as set out in the regulations, land rentals fees are being assessed on the basis of the expired licenses. The old land rental rate for each of the two plants is $500 per year. The land rental rates to be specified in the renewal licenses are expected to be considerably higher. The difference in the land rates will result in a retroactive billing to Manitoba Hydro and represents a current loss of fee and interest revenue to the Province.

We also observed that the Jenpeg plant is operating under an interim license. Construction on this plant was completed in the late 1970's. The Branch is awaiting receipt of the final construction plans from Manitoba Hydro prior to issuing the final licence. In our view, allowing the Jenpeg plant to operate for such an extended period of time with an interim licence contravenes the intent of the licensing system.

We recommend that the Branch continue its efforts to issue on a timely basis renewal licenses for Great Falls and Seven Sisters and a final license for Jenpeg.

Comments of Officials

We concur with the observations and the recommendation. We will continue to press Manitoba Hydro for the information necessary to enable us to issue the renewal and final licences.

Department of Northern Affairs

Native Affairs Secretariat

Introduction

The Secretariat was established in 1982 to provide staff and administrative support to the Minister Responsible for Native Affairs to assist the Minister to meet his mandate for Aboriginal policy, program development and coordination.

The Secretariat's role and mission statement includes the following:

- Review programming that relates to Native people and develop policy and program options to enhance the ability of the Province to assist in the social and economic development in the native community.

- Provide research and analysis on priority issues as directed by the Minister or Cabinet.

- Act as a liaison to the Native community through Native organizations to improve communication and dialogue and to enhance the opportunity for Native input into Native policy and programs.

- Support negotiations with Canada concerning financial and jurisdictional issues.

- Negotiate with Native leadership on outstanding provincial issues.

- Provide annual core funding and one-time funding through the Secretariat's budget to Native organizations to assist these organizations in fulfilling their mandates.

The Secretariat's staffing complement currently consists of 10 SY's:

1 - Secretary-Native Affairs Committee of Cabinet
1 - Director
1 - Special Advisor (presently vacant)
4 - Policy analysts (presently 1 vacant)
3 - Administrative/clerical support staff

The Secretariat's funding is voted in the Department of Northern Affairs appropriation 19-5. The actual expenditures for the fiscal periods ended March 31, 1988, March 31, 1989, March 31, 1990 and the budget estimate for March 31, 1991 is as follows:

Appropriation 19-5	Actuals			Budget
	1987/88	1988/89	1989/90	1990/91
Salaries	$ 290,268	$ 316,672	$ 373,511	$ 433,900
Other Expenditure	177,271	117,151	149,604	177,600
Grants	472,000	513,497	550,000	-
Aboriginal Fund	765,900	640,000	682,500	1,488,000
Totals	$ 1,705,439	$ 1,587,320	$ 1,755,615	$ 2,099,500

The Grants sub-appropriation, in the past, provided annual core funding while the Aboriginal Fund sub-appropriation provided all other grants. For the 1990/91 estimates, these sub-appropriations have been combined as the Aboriginal Fund.

Objectives and Scope

The objectives of our audit were:

- To review and evaluate the Secretariat's organizational function and identify opportunities for improvement.
- To review and evaluate the grant accountability policies, practices and procedures in place within the Secretariat against the Government standards set out in the Financial Administration Manual and the General Manual of Administration and identify opportunities for improvement.

Our findings and recommendations pertaining to these objectives follow.

Organizational Function

Criteria Applied

The Management Practices Guide describes the Manitoba Government's management philosophy, principles and environment. The Guide sets out a comprehensive framework for management standards including the organizational function. In particular, the Guide states that "effective organizing defines the areas of authority in the department. Staff members need to know their responsibilities and how their activities support department objectives."

To assess the Secretariat's organizational function, our review procedures were designed to determine whether:

- There is a defined organizational structure in place.

- The aims and objectives of the Secretariat are documented and clearly communicated to each member of the Secretariat.
- Staff roles and responsibilities to meet the aims and objectives are clearly defined.
- Staff performance is evaluated against the established roles and responsibilities.
- The Secretariat has a process in place to evaluate the effectiveness of its programs and the extent to which its objectives have been met.
- The Secretariat reports on the achievement of objectives.

Scope

We reviewed the organization for the period April 1, 1987 to September 30, 1990.

Observations and Recommendations

The Secretariat needs to improve its organizational function.

Delegation of Responsibility

The Secretariat has an appropriate organizational structure and the aims and objectives for the Branch as a whole have recently been established. However, considerable work needs to be done regarding clarification of delegation of responsibility.

Our review disclosed that individual staff roles and responsibilities need to be more clearly defined and delegated. The Secretariat staff and the Accounting staff in Thompson each considered the other ultimately responsible for ensuring adequate grant accountability. Also, staff job descriptions need to be updated. Job descriptions help to communicate to the employee how they fit into the organization, their roles and responsibilities and for what they are going to be held accountable. The job descriptions for the three policy analyst positions were 5 to 6 years old. Also the duties and responsibilities as described in the job descriptions were not consistent for all three positions, even though the three positions are deemed to be identical. A job description for the current Director, the most senior position, has not been finalized. Staff roles and responsibilities, once they are clearly defined in job descriptions, need to be communicated to the appropriate staff. Staff responsibilities must be clearly delegated before staff can be held accountable.

We recommend that responsibility be specifically assigned for the implementation of the grant accountability procedures. We also recommend the job descriptions be reviewed and updated.

Comments of Officials

The Deputy Minister stated that the Department has developed formal written procedures regarding grant accountability. The Native Affairs Secretariat will maintain the day to day working relationships with the organizations that receive grant funding. The Administration and Finance Branch will:

- issue letters to organizations who receive funding approvals outlining requirements for receipt of funds,
- receive, review and comment on approved organizations' budgets,
- receive, review and comment on approved organizations' audited financial statements,
- ascertain that all grant conditions have been met, and
- approve the final payment of grant funds.

The Deputy Minister also stated that as of March 31, 1991 all Secretariat job descriptions have been revised as recommended.

Individual Performance Management

Our review of the Secretariat's personnel files disclosed that staff performance appraisals were not being done on a timely basis.

It is Departmental policy that a performance review and staff development report (performance appraisal) be completed on an annual basis for all departmental employees. The Department's personnel section issued a performance management guide and a performance review and development report in 1988. This report was developed in response to the Government's policy statement in December 1986, requiring a general performance management policy for the civil service. We noted that the personnel files for the years 1986-1990 contained numerous requests, including second and third requests, from the Department's personnel section requesting performance appraisals. These have not been acted upon. The Secretariat needs to complete annual performance appraisals on all its staff. Performance appraisals are an important element of an effective performance management system.

We recommend the Secretariat increase its efforts to complete annual performance appraisals for all staff.

Comments of Officials

The Deputy Minister reported that as of March 31, 1991 all Native Affairs Secretariat annual performance appraisals have been completed.

Branch Performance Management

Our review indicated the Secretariat lacks an effective evaluation process. The Secretariat needs to develop a process to evaluate the extent to which it has met its objectives. Such a process is essential to ensure established objectives are appropriate and that activities effectively support departmental objectives. The process should also be helpful to demonstrate accountability. The Department's Management Services Branch has developed such a process through its estimates planning document. The Secretariat should consider adopting this process. The Secretariat also needs to report, on an

annual basis, on the achievement of its objectives. This is the final step in the accountability process.

We recommend The Secretariat work with the Management Services Branch to develop a process to evaluate how it meets its objectives. We also recommend the Secretariat provide this accountability on an internal basis and that it work towards the inclusion of appropriate material in the Department's annual report.

Comments of Officials

The Deputy Minister stated that the Secretariat's participation in the Department's Estimates process assures that there is an effective annual evaluation of the Secretariat's Grant program.

Grant Accountability

Criteria Applied

The Financial Administration Manual (Section 8B-2.4) and the General Manual of Administration (Section PA-11-06) set out Departmental responsibilities for the processing, accounting and reporting of grants and transfer payments.

Our review was undertaken to assess the Secretariat's grant accountability procedures and to determine whether:

- Departmental policy sets out appropriate terms and conditions for each grant. This includes whether applications have been completed, required supporting information provided, conditions for accounting and reporting established, and payment arrangements made.
- The Secretariat's systems are adequate to fulfill its processing, control, and accounting responsibilities.
- The Secretariat has a process in place to confirm that all significant conditions set out in the orders-in-council authorizing the grants are met before payments are released.

Scope

We reviewed Secretariat grant files for the major grantees for the period April 1, 1987 to September 30, 1990.

Our review encompassed approximately 94% of the grant dollars paid out of the Secretariat's appropriation (19-5) for the period reviewed. It included a comprehensive examination of all the significant grant files.

Observations and Recommendations

The Secretariat needs to make significant improvements to achieve an appropriate level of accountability for its grant operations.

Application for Grant Assistance

The Secretariat has not established formal grant application procedures. The Secretariat needs to develop a grant application form. Such a form should clearly document the required supporting information and the intended terms and conditions of each grant. The application is an essential first step in the grant accountability process. It should identify the organization, its aims and objectives and the intended use for the grant. It should also provide financial information and set out the conditions attached to the grant such as accounting for and reporting on the use and intended achievements to be realized from the grant.

We recommend the Secretariat develop grant application forms that establish appropriate terms and conditions at the front end of the process to set the basis for subsequent accountability.

Comments of Officials

The Deputy Minister stated that the Department has developed a clear process for grant applications and funding. This is the subject of a written procedure which clearly defines staff roles and responsibilities in this regard.

Evaluation of Grant Assistance Requests

The Secretariat has not established formal procedures to evaluate and priorize grant requests. Procedures need to be developed for the Secretariat to assess the applicants objectives, its capability of fulfilling these objectives, and its capability of providing adequate accountability. To ensure that all the required information is obtained, adequate systems need to be put in place to ensure the applicant uses the grant funds for the purpose approved and provides adequate accounting. Also, an appropriate cash flow for the grantee's needs should be established. These are necessary steps to enable the Secretariat to manage and control its grant programs. They provide the essential information needed to priorize grant requests to help the Secretariat allocate its resources in the most effective manner.

We recommend the Secretariat develop the appropriate policies and procedures to establish program priorities and assess program options.

Comments of Officials

The Deputy Minister stated that the above recommendations have been considered. Written policies and procedures have been developed for evaluating grant funding applications and establishing the compliance requirements. Staff have been instructed as to their specific responsibilities in this regard.

Compliance with Grant Conditions

Our review disclosed that the authorizing orders-in-council invariably set out specific requirements to be followed by the grantees as conditions to receiving the grant. These conditions, in many cases, were not being followed but grants continued to be made. Procedures need to be developed to ensure that grantees comply with the established terms and conditions of the grant. An order-in-council is the executive document, issued by cabinet on the recommendation of the Minister responsible, that provides the authority to issue the grant. Cabinet expects these directives to be followed.

Our review disclosed that the typical order-in-council sets out the following conditions:

- Submission of the grantees current budget.
- Submission of the grantees quarterly financial statements not later than thirty (30) days following the end of each of the first three quarters.
- Submission of the grantees audited financial statements not later than ninety (90) days following its fiscal year end.

Our review of the grant files of the seven major grantees for the fiscal periods 1988-1990 disclosed that, generally only two out of the seven organizations complied with the above noted specific conditions. All organizations receiving grants should be required to do so. Our examination of the Secretariat's grant files disclosed the following:

- Current budgets were on file in only about half the instances.
- Quarterly financial statements were on file in about a third of the instances.
- Audited financial statements were on file about half the instances.

In addition, we noted the following:

- One organization has not submitted any audited financial statements during the three year period. For the fiscal period ended March 31, 1990, an unaudited statement, clearly identified as prepared without audit, appeared to be altered to present it as an audited statement. This statement also disclosed a substantial deficit. However, our examination of the grant file and discussions with staff did not disclose any documentation to indicate these matters were ever questioned.
- One organization receiving annual core funding of about $220,000 and another organization receiving annual core funding of about $80,000 have not submitted audited financial statements for the past two fiscal years.
- One organization received a special $8,000 grant for conference expenses during

1988 and another special $3,500 grant for hockey tournament expenses during 1990. In both instances the organization was to provide written accounting of expenses. The grant files did not contain any accounting for either of these items.

- In one instance, the order-in-council and the attached treasury board minute specified that each instalment payment was to be disbursed only upon receipt of the applicable quarterly report. Payments were made but examination of the grant files indicated that the quarterly reports were not received.
- Of the financial statements actually received, several were considered to be deficient. In some cases, financial information was incomplete. In other cases, amounts reported in the financial statements could not be agreed to the grants issued. The grant files did not contain what follow-up procedures, if any, were performed by Secretariat staff or what procedures were carried out to reconcile the differences.
- Of the financial statements actually received, almost all were received after the due date. In several cases involving core funding, the financial statements were received six months after the previous fiscal year end. By this time, grant recipients had already been advanced half of their current year's funding.

We recommend that the Secretariat develop and implement appropriate policies and procedures to ensure that all grantees comply with the terms and conditions specified in authorizing orders-in-council prior to the payment of any grants. The accounting branch, in Thompson, should be instructed to release grant payments only if and when authorized in writing by staff who have been delegated this responsibility.

Comments of Officials

The Deputy Minister reports that in the current year 1990-91 all major grants to organizations are in compliance with the set requirements. A formal written procedure has been established clearly defining staff responsibilities to ensure grant terms and conditions are complied with. Under this procedure final payment of the grant fund is withheld until the requisite compliance by the recipient organization.

Evaluation of Grant Program Effectiveness

The Secretariat has not established procedures to evaluate the effectiveness of its grant programs. Procedures need to be developed to help the Secretariat assess the effectiveness of individual grants. Standards need to be established so the Secretariat can evaluate if the original objectives of the grant were met. Also procedures to annually assess the effectiveness of all on-going grants needs to be developed. Evaluating is an important element in the management cycle. It provides the opportunity to measure program effectiveness. Failure to perform such an assessment weakens the Secretariat's ability to best allocate its resources during the annual estimates process.

We recommend the Secretariat develop appropriate procedures to evaluate the effectiveness of its grant programs.

Comments of Officials

The Deputy Minister stated that the Secretariat's participation in the Department's Estimates process will result in an annual assessment as to how the Secretariat has met its objectives.

Procedures Manual

Our review indicated that the Secretariat's policies and procedures relating to its granting responsibilities were not well documented. All grant accountability policies and procedures should be documented in a procedures manual. Procedure manuals assist management in ensuring that appropriate procedures are in place. Detailed manuals are useful to assist in the training and guidance of staff and provide a benchmark against which staff performance can be measured.

We recommend the Secretariat develop and adopt appropriate documented grant accountability procedures.

Comments of Officials

The Deputy Minister reported that formal written procedures have been established to guide staff and that staff responsibilities have been clearly defined and documented.

File Documentation

Our review indicated that the grant files were, in many cases, not well organized. The Secretariat should improve its grant files. Complete and accurate files are necessary to demonstrate the secretariat has fulfilled its monitoring responsibilities.

We recommend the Secretariat review its file maintenance procedures.

Comments Of Officials

The Deputy Minister reported that the current files in the Secretariat are indexed and complete, when considered in tandem with appropriate financial information in the Administration and Finance branch in Thompson.

Department of Rural Development

Grants in Lieu of Taxes

Introduction

Part 6 of The Municipal Assessment Act provides that real property situated in a municipality is subject to taxation levied by the municipality. The Act also provides that certain properties are exempt from municipal taxation. Properties exempt include Crown owned lands and lands occupied by educational institutions. Most provinces and the Federal government provide municipalities with grants in lieu of taxes on such properties.

Division II of The Municipal Act covers the payment of grants in lieu of taxes by the Province of Manitoba. Section 799(1) of The Municipal Act provides:

"...there shall be paid in each year to each municipality grants in lieu of taxes on real property that would have been payable in that year to the municipality in respect of Crown lands and institutional lands in a municipality that are exempt from municipal taxation, if those lands were not so exempt."

In other words the Province is required to pay, in the form of a grant, the same amount of money that would have been paid as property taxes if the properties were not tax exempt. The grants are unconditional.

Responsibility for payment of grants in lieu of taxes rests with the Department of Rural Development for payments made from the Consolidated Fund and with specific Crown corporations. As noted previously, for the purposes of this review, we have only considered grants paid by the Department.

The Province provides grants in lieu of taxes to approximately 200 municipalities, local government districts, villages, towns and cities. Grants in lieu of taxes paid by the Department during the last 5 years are as follows: 1990/91 - $30,527,658; 1989/90 - $27,626,051, 1988/89 - $26,647,051; 1987/88 - $24,755,011 and 1986/87 - $25,552,234.

Objectives and Scope

The objective of our review was to determine whether grants in lieu of taxes are properly calculated and paid in accordance with authorities.

We reviewed payments of grants in lieu of taxes paid from the Consolidated Fund by the Department of Rural Development for the year ended March 31, 1991. Our review did not include grants in lieu of taxes paid by Crown corporations.

Observations

We tested a sample of payment vouchers representing 89% of the dollars paid during the year and found them to be fully supported by tax bills on file in the Department. Based on our testing and other audit procedures, we concluded that grants in lieu of taxes are properly calculated and paid in accordance with provisions of The Municipal Act. We also contacted officials of the four major recipients of provincial grants in lieu of taxes. All expressed satisfaction with the manner in which the program is being administered.

Department of Education - St. James - Assiniboia School Division

In September 1990, the Secretary Treasurer of St. James-Assiniboia School Division informed the Department of Education and Training of inaccuracies in the student enrolment information for John Taylor Collegiate. For the 1988 and 1989 school years, the reported enrolment included students who were not attending the school. The senior administration of the school division initiated an internal review into the student enrolment information.

Enrolment misinformation can result in an incorrect payment of Provincial grant funds to the school division. As a result, the Minister of Education and training requested the Office of the Provincial Auditor to undertake an audit of the enrolment problem at the school division. This request was accepted.

We concluded that the senior administration of the division performed an appropriate internal review of the enrolment information for John Taylor Collegiate as at September 30, 1988 and 1989. We identified some differences concerning the enrolment information for John Taylor Collegiate as at September 30, 1990. The differences involve 12 students and raise questions about the basis for reporting enrolment. We reported that this matter requires direction from the Department of Education and Training. We also reported that there was a need for better direction to have been provided for the administrative procedures and enrolment reporting processes, and better monitoring processes to have been implemented by the school division and the Province. The school division subsequently initiated a number of actions to strengthen controls over the enrolment records and reports.

Our audit identified opportunities to improve aspects of the administrative procedures, reporting processes and other matters to prevent similar problems from occurring in the future. After completion of our work in the St. James-Assiniboia School Divisions, we concluded that the audit provided a sufficiently broad perspective on enrolment practices to identify opportunities for improvement and make recommendations, some of which would be applicable Province wide.

During our special audit of enrolment at John Taylor Collegiate, the Minister of Education and Training, and the Office of the Provincial Auditor, were advised of concerns involving John Taylor Collegiate school fund expenditures. We decided to examine the school fund expenditures.

In our view, there was a serious lack of control and accountability for public funds at John Taylor Collegiate. Our report identified a number of opportunities to improve accountability and control over school funds. Our special audit report which includes our detailed observations and related recommendations was issued on May 8, 1991.

Department of Finance - Taxation Division

In early 1991, while a reorganization of the Taxation Division was in process, a number of allegations regarding the Taxation Division's operations were identified in the Legislative Assembly, the news media and in Public Accounts Committee meetings. The attention given the allegations was extensive. The Minister of Finance requested that the Provincial Auditor's Office undertake a special audit of the allegations raised. This request was accepted.

We carried out the special audit to determine whether there was substance to the allegations made but we did not limit ourselves to these matters. As a result of our work, we noted a number of improvements required to the management practices within the Division. Recommendations for improvement to management practices were developed as an extension of our investigation into the allegations are included in the "New Matters - Agencies and Departments" section of this report.

In general we found that the allegations did not present a full picture of a stated situation. We found at the commencement of our audit that the Division was not organized to effectively collect sales tax receivables. We also found, generally, that where there was validity to the allegations, that management had or was in the process of taking action. All allegations have been individually addressed in our Special Audit Report which was issued on November 22, 1991.

Department of Government Services - Proposal Call Process for Manitoba Housing Office Space Leasing Project 93580

On March 30, 1991, the Department of Government Services with Treasury Board approval, accepted an offer to lease office space at 280 Broadway Ave. from 72398 Manitoba Ltd.

Serious questions were raised in the Legislature regarding this leasing arrangement and the selection process leading up to the lease. The Minister of Finance stated his interest in having the Office of the Provincial Auditor undertake a review of the process followed in awarding this lease. Further questions were raised in a meeting of the Public Accounts Committee.

We undertook to carry out a review of the process followed in awarding the lease. The primary objective of the special project audit was to determine whether concerns with the awarding of this lease had substance. During the course of our review, we noted

situations where improvements could be made in the leasing process. We believe that there are opportunities to enhance the process in the areas of policy and documentation, evaluation and comparison, and proposal timing.

Our detailed observations and related findings were provided to the Chairperson of the Public Accounts Committee on June 14, 1991. Our findings related to our review of the process followed in awarding the lease are summarized below.

Concern was expressed about the way this lease was arranged. Specifically, there was concern that the original proposal call was cancelled in favour of a "private bidding process", which circumvented the public tendering of a large contract.

The proposals received on the second request were not opened publicly. Except for this, the process by which the lease was issued and the procedures followed by the staff and officials of the Department of Government Services in the Manitoba Housing Office Space leasing project #93580 were considered to be generally appropriate.

We concurred with the ranking of proposals received on the original proposal call and with the rankings of proposals received on the second or revised proposal call as determined by the Department of Government Services.

We found no evidence to suggest that there was any influence from any source, political or otherwise, on either the evaluation process or the selection decision. Treasury Board approved the Departmental recommendations as submitted. Those recommendations were based on the evaluation work performed by the Department of Government Services staff.

Manitoba Boxing and Wrestling Commission

A local promoter advised the Minister responsible for the Boxing and Wrestling Commission of a number of concerns he had with the operations of the Commission. The Minister asked the Minister of Finance to request a special audit into matters related to the promoter's concerns. The Minister of Finance subsequently requested that the Provincial Auditor's Office conduct a special audit to review the matters identified as concerns by the promoter. This request was accepted.

We carried out the audit to determine if there was substance to the identified concerns but we did not limit ourselves to these matters. With regard to the concerns identified by the local promoter, we generally concluded that there was substance to the concerns. Our special audit which detailed the concerns, our observations and related recommendations was issued on March 11, 1991.

General Comments

Information on the Government's financial position and its operating results is published annually by the Government of the Province of Manitoba in the Public Accounts. The objectives of financial reporting are:

- to communicate information that is relevant, timely, clear and developed on the basis of consistently applied accounting policies;

- to provide an accounting of the full nature and extent of the financial affairs and resources for which the Government is responsible;

- to demonstrate the Government's accountability for the financial resources entrusted to it;

- to account for the sources, allocation and use of the financial resources required by the Government in the period being reported on; and

- to present information to display the state of the Government's finances.

The Public Accounts and departmental annual reports are the principle means by which the Government accounts to the Legislators and the public on the results of its operations.

The Public Accounts consists of three volumes. Volume 1 contains the financial statements of the Consolidated Fund, being the Operating Fund and the Trust Fund, and other supporting information. Volume 2 contains supplementary information on expenditures by object code, salaries and wages paid to employees and payments to corporations, firms, individuals, other governments and government agencies. Volume 3 contains the Summary financial statements. The Summary financial statements for March 31, 1991 have not been released by the Government as of the date of this report. The Consolidated Fund financial statements for March 31, 1991 are reproduced in this report as Exhibit 9.

Specific purpose financial statements, such as the Operating Fund financial statements have their limitations. Therefore, the Government has adopted the recommendations of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants (PSAAC) regarding the preparation of Summary financial statements.

Prior to the 1990 fiscal year end, the Summary financial statements included a limited number of Crown organizations. The Government made significant progress in expanding the contents of its Summary financial statements for the year ended March 31, 1990. As a result, there will be reasonable comparability in the presentation of the Summary

financial statements between what was presented last year and the statements that will be presented this year where all Crown organizations are included. However, because our analyses of trends is for a ten or five year period, our analysis of significant trends is restricted to information based upon the Consolidated Fund financial statements.

To help a reader better understand the Government's operating results, we provide additional comments and analysis of significant aspects of the Government's financial operations.

Consolidated Fund Financial Statements - Reservations In Our Attest Audit Opinion

Our attest audit opinion on the Consolidated Fund financial statements of the Government of the Province of Manitoba is reproduced in Exhibit 8. We report that the financial statements are presented, except for reservation 1, in accordance with the accounting policies stated in notes 1 to the Operating Fund and Trust Fund financial statements. We also report three additional reservations regarding the Government's accounting treatment:

Reservation 1

Reservation 1 comments on the Government recording in the Operating Fund financial statements an emergency disaster amount receivable from the Government of Canada of $18.7 million. The receivable is for a pending claim for fire suppression costs incurred by Manitoba during the 1990 fiscal year. Note 1B2 to the Operating Fund financial statements indicates that revenues are recorded on an accrual basis. However, as at March 31, 1990, the Governments of the Province of Manitoba and Canada had not finalized the cost sharing arrangements for these costs, the Province had not submitted a formal claim to Canada and Canada had not acknowledged this liability. Although further discussion took place during the year ended March 31, 1991, to date, no agreement has yet been reached. As a result, realization of this amount receivable is contingent upon future negotiations. As at March 31, 1991, $18.7 million cannot be verified as an amount receivable. The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants (PSAAC) has researched the issue of accounting for government transfers. PSAAC recommends that shared cost revenues be recognized by the recipient government for the portion of eligible expenditures incurred during the year that the transferring government has agreed to share pursuant to a shared cost agreement. As at March 31, 1991, Canada, the transferring Government, had not agreed to share in these fire suppression costs and an agreement had not been finalized. Had the Government not recorded the $18.7 million as an amount receivable in the Operating Fund financial statements, the financial assets would be decreased and the accumulated deficit would be increased by $18.7 million as at March 31, 1991.

Reservation 2

Reservation 2 concerns the exclusion of pension liabilities and associated pension costs from the Government's financial statements for pension entitlements earned by Government employees, teachers and Members of the Legislative Assembly. It comments that the accounting treatment is in accordance with the accounting policy stated in note 1B2d to the Operating Fund financial statements.

This is the thirteenth year we have reported concerns with the Government's increasing unrecorded pension liabilities and the unrecorded cost of the annual increase in pension liabilities for pension entitlements earned by civil servants, teachers, Members of the Legislative Assembly and staff of certain Crown agencies.

PSAAC has researched the issue of accounting for pensions and reporting practices in Canada. PSAAC has issued recommendations for accounting for this aspect of government operations. Public Sector Accounting Statement 5 - Accounting for Employee Pension Obligations in Government Financial Statements recommends that governments record in their financial statements liabilities and costs for pension entitlements earned by their employees.

Pension entitlements earned by Government employees are contractual obligations of the Government. During their years of service to the Government, employees earn both their salary and post retirement pension benefits. Employee salaries are costs that the Government incurs and records month by month as the salaries are earned. Post retirement pension entitlements also are earned during the years of service and are liabilities of the Government that the Government should record as the entitlements are earned. To exclude from the Government's operating accounts the unfunded pension liabilities and the costs associated with the annual increase in the pension liabilities for employees' post retirement pension entitlements earned over the years of employment understates the Government's operating costs and accumulated liabilities.

Note 13 to the Operating Fund financial statements discloses information on the Government's estimated unfunded pension liabilities. The unfunded pension liabilities are estimated to be $1,257 million as at March 31, 1991. While note disclosure provides information that is helpful to understanding aspects of Government operations, it is not the same as recording the pension liabilities and the costs associated with the annual increase in pension liabilities in the financial statements. Had the Government recorded the unfunded pension liabilities and the costs associated with the annual increase in pension liabilities in the Operating Fund financial statements, expenditures and the annual operating deficit would be increased by an estimated $127 million for the year ended March 31, 1991. Also, liabilities and the total excess of liabilities over financial assets and similar items (accumulated deficit) would be increased by an estimated $1,257 million as at March 31, 1991.

Reservation 3

Reservation 3 concerns transactions between the Operating Fund of the Consolidated Fund and the Fiscal Stabilization Fund. It deals with concerns regarding the effects of transactions between the two funds for the years ended March 31, 1989 through March 31, 1991.

For the year ended March 31, 1989, we reported our concern with the Government not combining the Fiscal Stabilization Fund with the Operating Fund for financial reporting purposes. We reported that the actions taken by the Government to transfer $200 million

of Operating Fund revenue to the Fiscal Stabilization Fund was in accordance with The Fiscal Stabilization Fund Act. However, in our view, the transfer was not in accordance with the spirit of the Operating Fund's accounting policy stated in note 1A. The accounting policy states that the financial statements prepared for the Operating Fund report amounts recorded as Government revenue, expenditure on Government programs, the lending and investing of Government funds and the borrowing and repayment of debt.

While we support the establishment of a reserve such as the Fiscal Stabilization Fund, any transfers to the Fund should be through an allocation of surplus (deficit). Funds should not be transferred from revenue in any way which impacts on the operating results of the Operating Fund.

The purpose of the Fiscal Stabilization Fund is to stabilize the fiscal position of the Government. When the Operating Fund requires additional moneys for Government programs that benefit Manitobans, the Government will return funds from the Fiscal Stabilization Fund to the Operating Fund. The difference between the Operating Fund and the Fiscal Stabilization Fund is the timing of when the funds will be used for operating purposes to fund Government programs. In our view, segregation of funds in the Fiscal Stabilization Fund apart from the Operating Fund is not appropriate because it results in the incomplete presentation of the Government's Operating Fund financial statements.

The transfer, in the 1989 fiscal year, of $200 million in Operating Fund revenues to the Fiscal Stabilization Fund continues to result in an overstatement by $200 million of the Government's Operating Fund liabilities and accumulated deficit as at March 31, 1991.

In 1990 and 1991, the above-noted situation was compounded. In 1990, the Fiscal Stabilization Fund recorded $25 million of interest revenue earned on the $200 million of Operating Fund revenues transferred in 1989. For the year ended March 31, 1991, the Fiscal Stabilization Fund recorded $31.6 million of interest earned on funds previously transferred and $17.7 million of revenue transferred from the Consolidated Fund related to the sale of Manitoba Data Services. In addition, as at March 31, 1991, the Government transferred $85 million of revenue from the Fiscal Stabilization Fund to the Operating Fund. These transactions, as with the $200 million transferred in 1989, should be combined with the Operating Fund for reporting purposes.

Had the Government combined these transactions with the Operating Fund, Operating Fund revenue would be decreased by $67.3 million, expenditure would be decreased by $31.6 million and the annual deficit would be increased by $35.7 million for the year ended March 31, 1991. Also liabilities and the accumulated deficit would be decreased by $189.3 million as at March 31, 1991.

Reservation 4

Reservation 4 comments on the Government classifying the Manitoba Lotteries Fund, which is an operating type fund, as a trust fund. This is being done to be in accordance with legislation establishing this fund. This fund does not meet the criteria of a trust fund

because a fiduciary trust relationship does not exist. These funds differ from trust funds such as those held by the Public Trustee's Office. The Public Trustee's Office holds funds in trust for specific third parties under a trust relationship. The Manitoba Lotteries Fund is not being held for third parties under a trust relationship. Unlike the trust funds held by the Public Trustee's Office, the Government may use the Manitoba Lotteries Fund funds to deliver government programs and the Government has discretion as to how and when the funds are to be used.

Because these funds do not meet the criteria of a trust fund, the balances of these funds should be reported in the Operating Fund Section of the Consolidated Fund rather than in the Trust Fund Section of the Consolidated Fund. The expenditures of these funds were reported in the Operating Fund Section of the Consolidated Fund, as were a matching amount of revenues. Revenues in excess of expenditures for the year should also have been reported in the Operating Fund Section rather than in the Trust Fund Section of the Consolidated Fund.

For the year ended March 31, 1991, receipts of $10.5 million were not recorded as Operating Fund revenue and $54.2 million remains unexpended in the Manitoba Lotteries Fund balance as at March 31, 1991. Had the Government recorded this fund in its Operating Fund financial statements, revenue would be increased by $10.5 million and the annual deficit would be decreased by $10.5 million for the year ended March 31, 1991. Also, liabilities and the accumulated deficit would be decreased by $54.2 million as at March 31, 1991.

The combined effect of the four reservations on the Government's 1991 operations is a decrease in revenue of $56.8 million, an increase in expenditure of $95.4 million and an increase in the annual deficit of $152.2 million for the year ended March 31, 1991. Also, financial assets would be decreased by $18.7 million, liabilities would be increased by $1,013.5 million and the accumulated deficit would be increased by $1,032.2 million as at March 31, 1991. The annual deficit for the year ended March 31, 1991 would be $444.2 million as compared to the reported annual deficit of $292.0 million. The accumulated deficit as at March 31, 1991 would be $6,059.2 million as compared to the reported accumulated deficit of $5,027.0 million.

We recommend that the Government:

- finalize formal arrangements with the Federal Government on cost sharing of the fire suppression costs incurred in the 1990 fiscal year;
- take action to record its pension liabilities and the costs associated with the annual increase in the pension liabilities;
- combine the Fiscal Stabilization Fund with the Operating Fund of the Consolidated Fund for financial reporting purposes; and
- combine all of the revenues and balance remaining in the Manitoba Lottery Fund with the Operating Fund for reporting purposes.

It is important to note that the Government's Summary financial statements combine the Fiscal Stabilization Fund and the Manitoba Lotteries Fund, together with other Crown entities, with the Operating Fund. However, this does not provide for the expected level of information in the Operating Fund financial statements.

Comments of Officials

Accrual of Shared Cost Claim Against Canada re Fire Suppression Costs

Officials advised that the accrual of $18.7 million was based on announced support by the Government of Canada. The accrual of shared cost recoverables, when such expenditures have been incurred, is the Government's normal accounting practice. Although the Manitoba Government has not been able to finalize this recoverable through an agreement, it is the Government's intention to pursue collection of these monies.

Pension Liabilities and Associated Pension Costs

Officials advised that the Government continues to review the alternatives available for the resolution of this issue within the limits imposed by the Province's current fiscal situation.

Fiscal Stabilization Fund

Officials stated that the Fiscal Stabilization Fund was established as an entity distinct and separate from the Consolidated Fund for the purpose of holding exceptional revenues of the Government in reserve until they are required. The Fund is intended to act as a fiscal shock absorber, returning revenue to the Consolidated Fund in fiscal years when Government revenues are constrained or there are exceptional expenditure requirements.

Manitoba Lotteries Fund

Officials stated that the Government is following the intent of the legislation by maintaining these funds in a trust account and does not consider it appropriate to incorporate lotteries proceeds directly into Provincial revenues.

Summary Financial Statements - Reservations in our Attest Audit Opinion

At the date of this report, we have not received the Summary financial statements upon which we will express an audit opinion. Based on our work to date, we anticipate that the audit opinion will parallel the audit opinion we expressed on the Consolidated Fund financial statements. Our reservations 3 and 4 on the Consolidated Fund financial statements are not expected to appear in our opinion on the Summary financial statements because both the Fiscal Stabilization Fund and Manitoba Lotteries Fund

transactions and balances are combined in the Summary financial statements for reporting purposes.

Comments and Analysis of Financial Information

Annual Deficit and Accumulated Deficit

The annual deficit is the excess of expenditures over revenues for the year. The annual deficit indicates the amount by which current expenditures have to be financed through future taxes. The accumulated deficit is the total of all the annual deficits, with adjustments to prior period operating results, less any annual surpluses. The accumulated deficit of a government is one of the key indicators of a government's financial condition. In Manitoba, the accumulated deficit is disclosed on the statement of financial position and it is called "Total Excess of Liabilities Over Financial Assets and Similar Items". The similar items refer to serial debentures of school divisions and districts and securities received from the sale of land and buildings. These items are to be funded by charges to future appropriations.

There are different and divergent opinions about government's accumulating significant deficits. However, when a deficit is incurred it means that the government must finance this portion of its operations from borrowings (debt). This results in a portion of the government's future revenues being used to fund interest on debt. Continuing significant deficits will likely make it more difficult for a government to manage the debt. The following graphs provide insight into the Government's annual operating deficits and accumulated deficit.

The Government has stated that no one challenge is more fundamental to the Government's plans to reach the Province's potential than the challenge of keeping the Government's finances under control. We are encouraged by the Government's intention to continue its work to reduce its deficits.

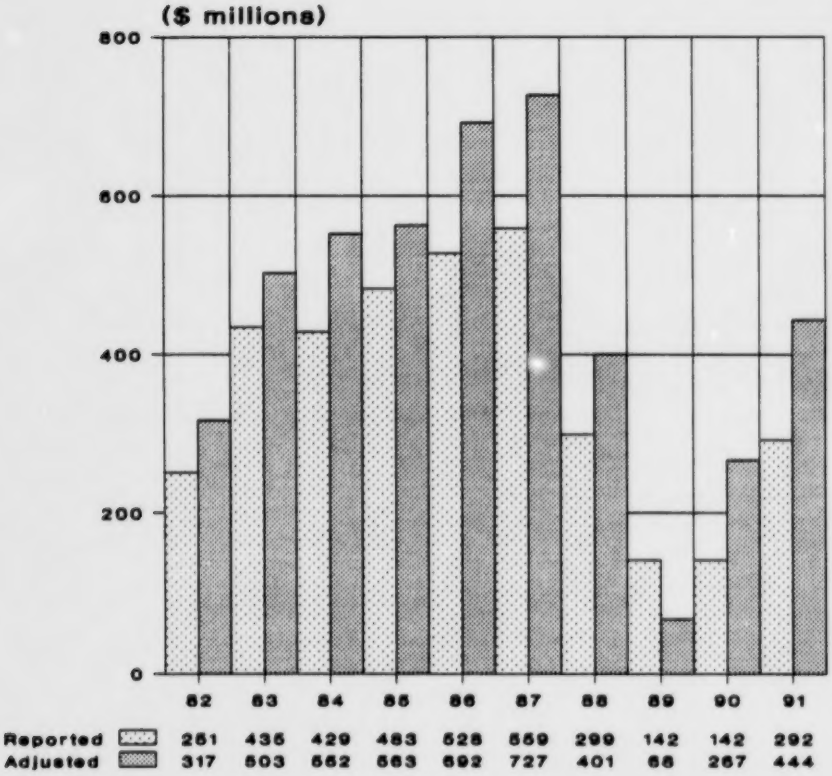
Graph 1 shows the reported annual deficit for each of the last ten years, from 1982 to 1991. The graph also provides, for comparison, the adjusted annual deficits after reflecting reservations reported in our attest audit opinions that affected the annual deficits and the retroactive adjustments for the costs associated with the annual increase in pension liabilities. The more significant adjustments in this and other graphs are those related to pension costs and liabilities.

The exclusion of pension costs and liabilities from the financial statements has been a concern of ours for many years. In 1988, PSAAC issued recommendations as to how to account for and report employee pension obligations. Our graphs reflect adjustments made retroactively on the recommended basis.

Graph 1 highlights the rapidly increasing annual deficits from 1982 through 1987 during a period of economic expansion and the very significant decrease in 1988 and 1989 during the same period of economic expansion. The graph also reflects the significant increase in deficits in 1990 and 1991 as the economy was entering and during the recent Canadian recession.

Graph 1

Annual Deficit



Graph 1 illustrates that the adjusted annual deficits range from a low of $68 million in 1989 to a high of $727 million in 1987. The adjusted annual deficit rose from $68 million in 1989 to $444 million in 1991. In 1991, the increase of $152.2 million from the reported deficit to the adjusted amount is due to reservations in our attest audit opinion on the Consolidated Fund financial statements regarding:

- the Government's not recording the costs associated with the annual increase in pension liabilities of $127 million;
- the Government not separating the Fiscal Stabilization Fund transactions of $35.7 million from the Operating Fund;

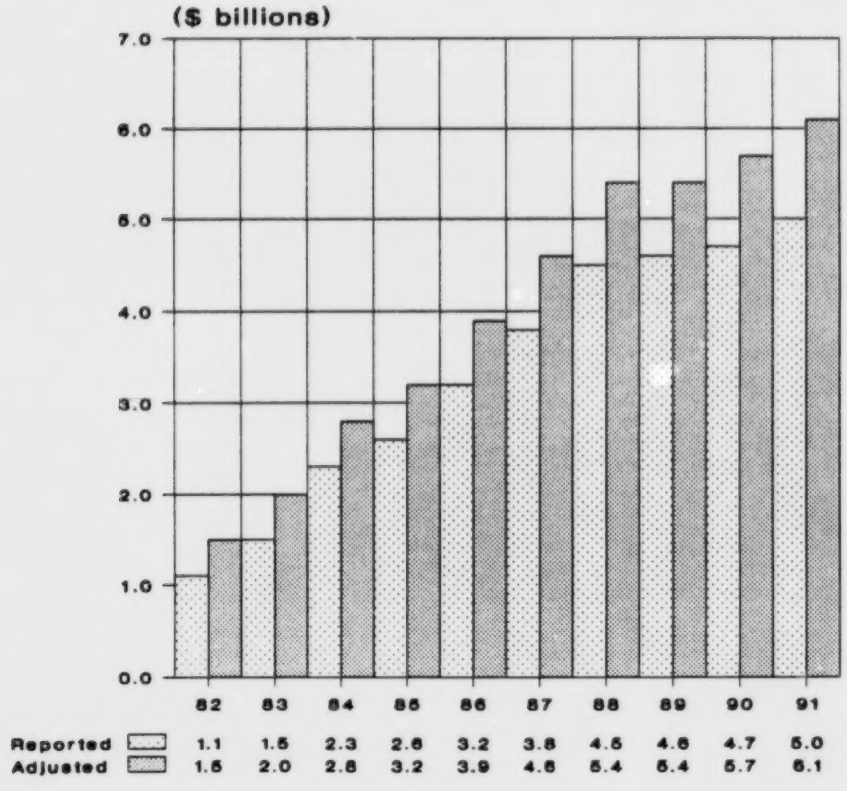
less

- the Government not recording Manitoba Lotteries Fund receipts of $10.5 million as Operating Fund revenue.

Graph 2 shows the steadily increasing accumulated deficit over the past ten years. The graph also provides, for comparison, the adjusted accumulated deficit each year after reflecting reservations reported in our attest audit opinions that affected the accumulated deficit and the retroactive adjustments for the recording of the Government's pension liabilities.

Graph 2

Accumulated Deficit



Graph 2 indicates that the accumulated deficit continues to grow. Since 1982, the adjusted accumulated deficit has increased $4.6 billion. The adjusted accumulated deficit is now more than 4 times the adjusted accumulated deficit recorded at March 31, 1982.

The increase of $1,032.2 million between the 1991 reported accumulated deficit and the 1991 adjusted amount, based on our reservations, is the result of:

- the Government's failure to record its pension liabilities for its employees, teachers and Members of the Legislative Assembly of an estimated $1,257 million;

- the Government recording an unsupported amount receivable from the Government of Canada of $18.7 million;

less

- the Government not combining the transactions in the Fiscal Stabilization Fund with the Operating Fund. These transactions included net transfers of $132.7 million and accumulated interest of $56.6 million earned by the Fiscal Stabilization Fund on the transfers and

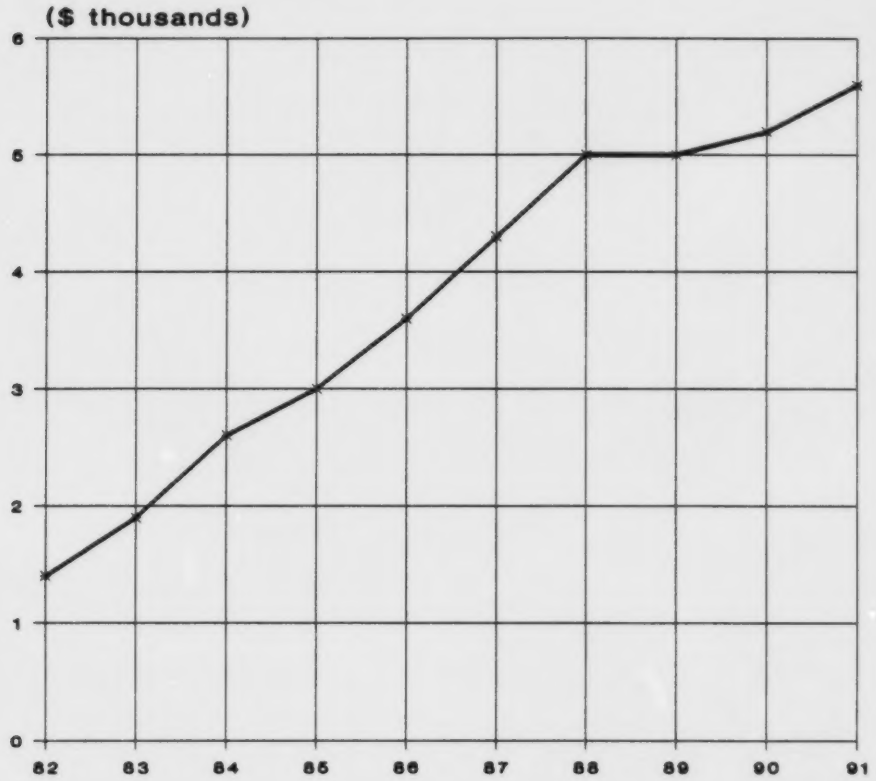
- the Government not recording the unexpended balance of $54.2 million in the Manitoba Lotteries Fund in its Operating Fund financial statements.

Graph 3 shows the adjusted accumulated deficits on a per-capita basis after reflecting reservations in our attest audit opinions that affected the accumulated deficits and the retroactive adjustments for the recording of the Government's pension liabilities.

Manitoba's population figures used throughout this report are those reported by the Manitoba Bureau of Statistics as at April 1 of each year.

Graph 3

Accumulated Deficit Per Capita



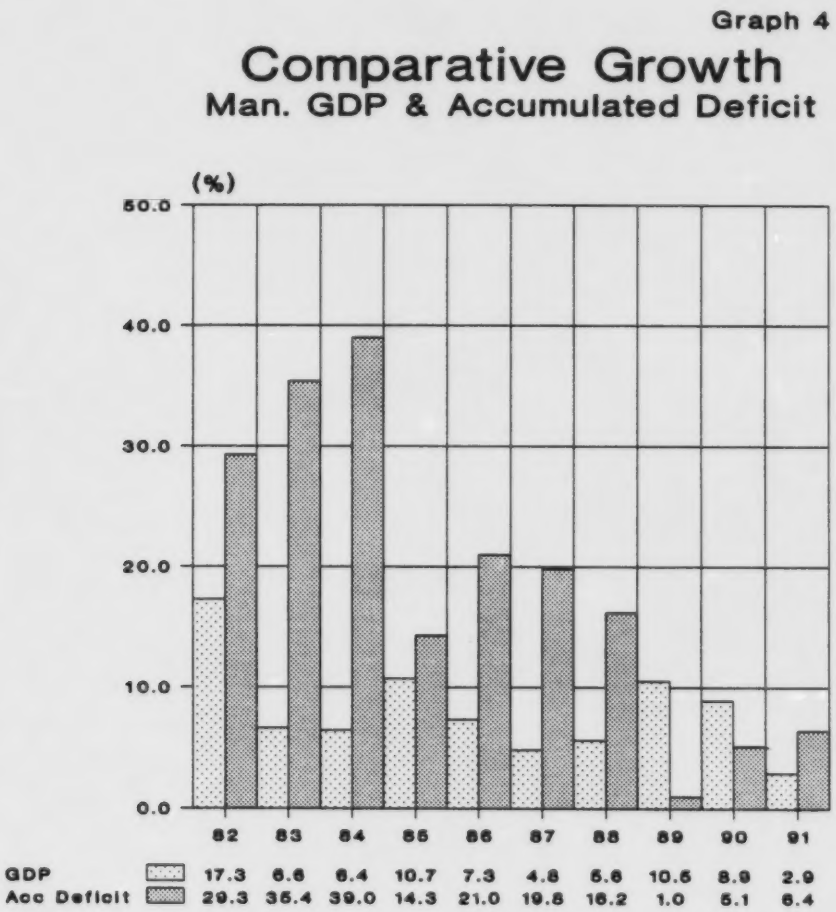
Graph 3 indicates that the 1991 adjusted accumulated deficit per capita is $5,537. This is an increase of $4,103 from 1982. The adjusted accumulated deficit per capita is now almost 4 times the adjusted 1982 per capita amount. These amounts are significant when considered that each person in Manitoba would be required to pay $5,537 to eliminate the Provincial accumulated deficit as at March 31, 1991. This does not include any amount for the Federal deficit or municipal deficits.

Another perspective on the deficit situation is to look at the growth in the accumulated deficit compared to the growth in the economy, as measured by the gross domestic product (GDP).

Manitoba's gross domestic product used in this report are those reported by the Manitoba Bureau of Statistics.

The following graph compares the annual percentage change in Manitoba's GDP to the percentage change in Manitoba's accumulated deficit for the past ten years.

Graph 4



The graph indicates that growth in the accumulated deficit exceeded the economic growth from 1982 through 1988. In 1989 a dramatic reversal of this trend took place. However, in 1990 the differential between the indicators was narrowed and in 1991 the growth in the accumulated deficit again outpaced the economic growth.

When growth in the accumulated deficit exceeds economic growth, greater borrowing is required. The related debt servicing costs limit the Government's spending flexibility on government programs.

The following section provides an analysis of expenditure and revenue.

Expenditure and Revenue

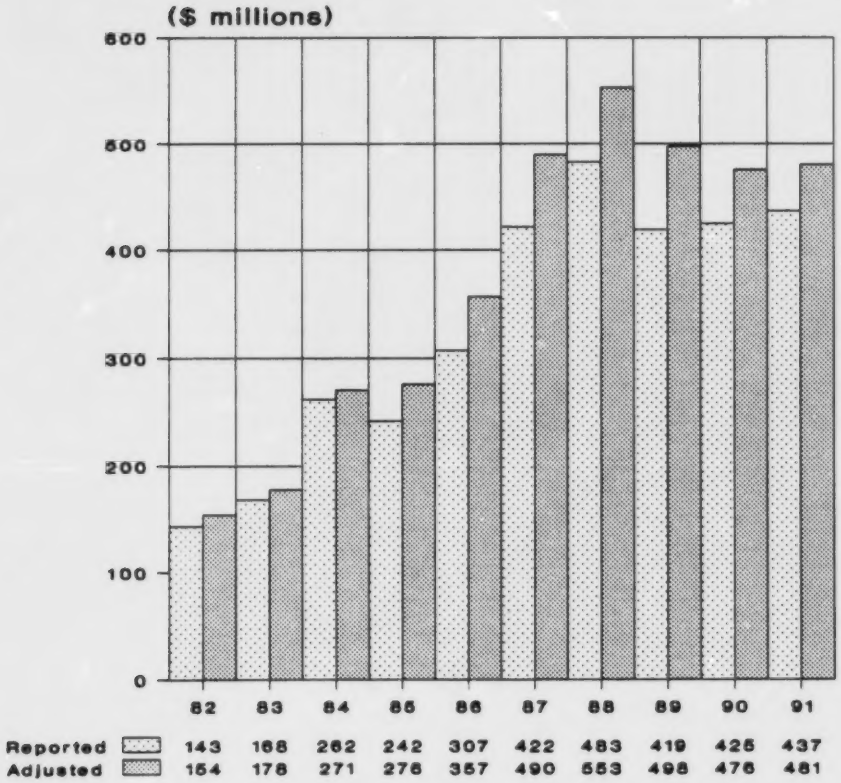
Public Debt Expenditure

Graph 5 shows the public debt expenditure, including Hydro rate stabilization expenditure, for the last ten years as reported in Public Accounts. The graph also provides, for comparison, the adjusted public debt expenditure, including Hydro rate stabilization, after reflecting:

- reservations reported in our attest audit opinions,
- payments to Manitoba Properties Inc. recorded in the Public Accounts as rental payments, and
- an adjustment for interest related to unrecorded pension liabilities.

Graph 5

Public Debt Expenditure



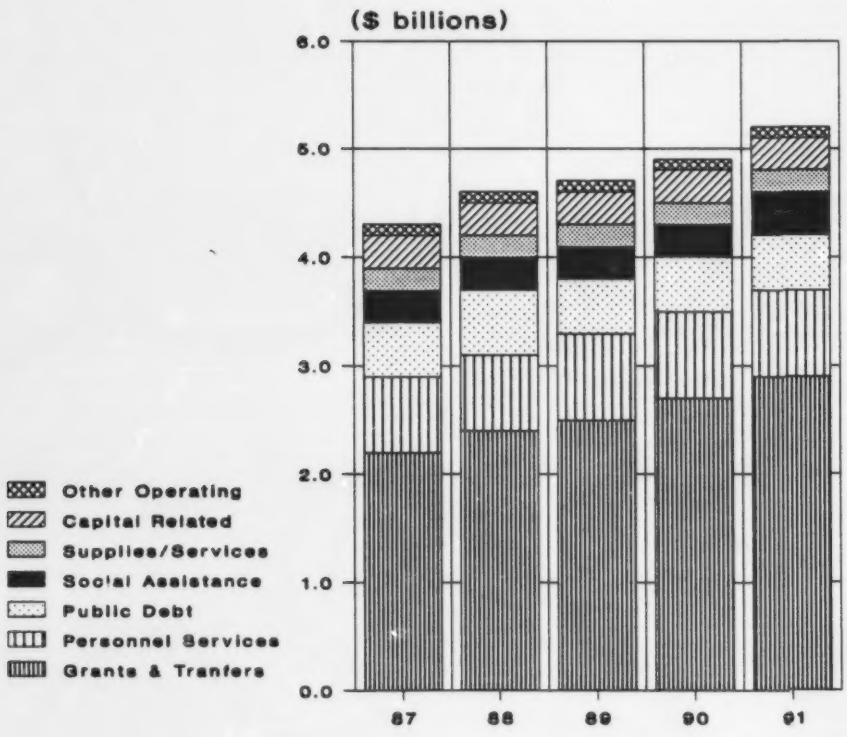
Graph 5 illustrates that adjusted public debt expenditures, including Hydro rate stabilization expenditure, ranged from a low of $154 million in 1982 to a high of $553 million in 1988. Public debt expenditure decreased in 1989, 1990 and 1991 from that of 1988. This is mainly attributable to a decrease in the cost of servicing the foreign debt due to more favourable exchange rates and the termination of the Hydro Rate Stabilization program as of April 1, 1989. The Province's reduced exposure to foreign debt has also been a factor. In addition, public debt expenditure for 1988 included a significant one-time adjustment to reflect a change in the method of amortizing estimated losses on foreign currency of $64.1 million.

Expenditure by Object Code

Graph 6 presents adjusted expenditure by object code.

Graph 6

Adjusted Expenditure by Object Code



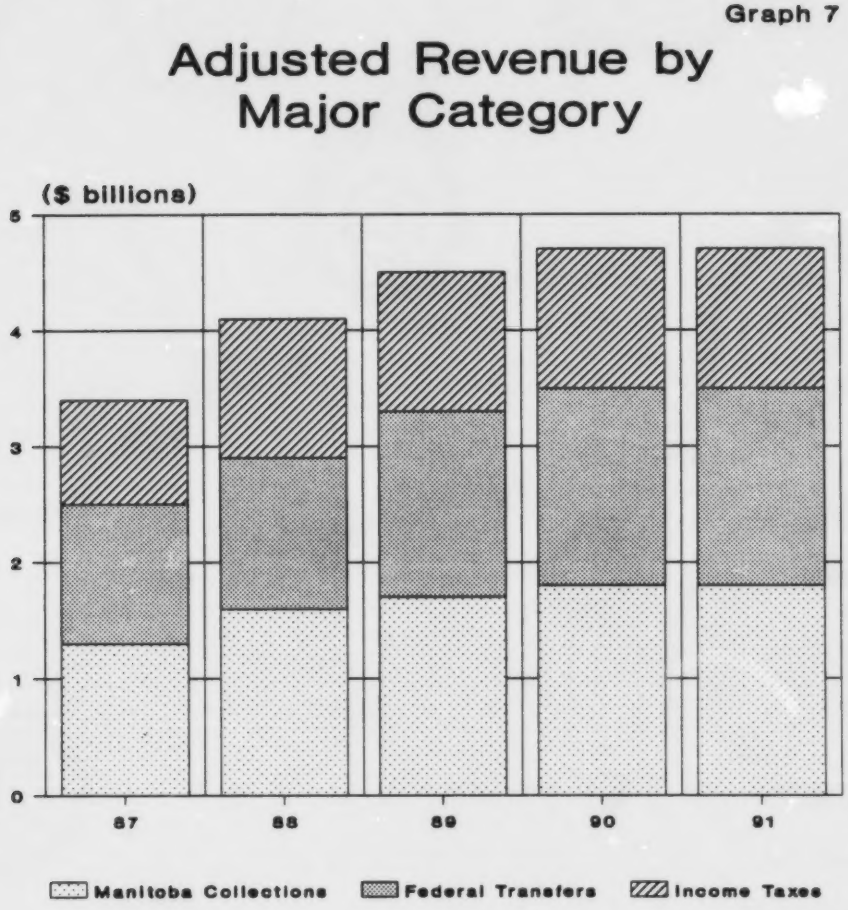
	($ billions and Percent of Total)									
	1987		1988		1989		1990		1991	
	$	%	$	%	$	%	$	%	$	%
Other Operating	0.1	1.4	0.1	1.9	0.1	1.8	0.1	2.1	0.1	1.6
Capital Related	0.3	6.4	0.3	5.7	0.3	6.1	0.3	6.1	0.3	6.0
Supplies/Services	0.2	4.3	0.2	4.0	0.2	4.2	0.2	4.3	0.2	4.1
Social Assistance	0.3	6.3	0.3	6.6	0.3	6.7	0.3	7.0	0.4	7.3
Public Debt	0.5	12.1	0.6	12.4	0.5	10.8	0.5	9.7	0.5	9.3
Personnel Services	0.7	16.0	0.7	15.6	0.8	16.2	0.8	16.2	0.8	16.0
Grants & Transfers	2.2	53.5	2.4	53.8	2.5	54.2	2.7	54.6	2.9	55.7
	4.3	100	4.6	100	4.7	100	4.9	100	5.2	100

Grants and transfer payments are by far the most significant type of expenditure. The more significant grants and transfer payments are to the Manitoba Health Services Commission and to schools and universities. Further details of expenditures by object code can be found on page 5-16 and 5-17 of Volume 1 of the Public Accounts.

Revenue by Major Category

Graph 7 presents adjusted revenue information by major category.

Graph 7



($ billions and Percent of Total)

	Income Taxes		Federal Transfers		Manitoba Collections		Total Revenue	
	$	%	$	%	$	%	$	%
1987	.9	27	1.2	35	1.3	38	3.4	100
1988	1.2	29	1.3	32	1.6	39	4.1	100
1989	1.2	27	1.6	35	1.7	38	4.5	100
1990	1.2	26	1.7	36	1.8	38	4.7	100
1991	1.2	26	1.7	36	1.8	38	4.7	100

Combined Direct and Guaranteed Borrowings

Direct borrowing is debt the Government has incurred to supplement the shortfall in revenue needed to carry out its fiscal operations, and for agencies to fund major capital initiatives. In addition to direct borrowings, the Government has guaranteed borrowings by Government entities. Guaranteeing these entities' borrowings is an alternative to direct Government borrowing and lending the funds to the entities. The reported direct and guaranteed borrowings are presented below for information (in millions of dollars):

		March 31 1991	March 31 1990	Increase (Decrease)
Direct borrowings		$ 11,456	$ 10,028	$ 1,428
Guaranteed borrowings		2,123	2,115	8
Gross combined borrowings		13,579	12,143	1,436
Less:				
Sinking funds re:				
Direct borrowings		2,234	1,910	324
Guaranteed borrowings		303	290	13
	*	11,042	9,943	1,099
Debt of the Province of Manitoba held as provincial investments		134	199	(65)
Unamortized debt issue costs		46	39	7
Total		$ 10,862	$ 9,705	$ 1,157

The above debt was issued for the following purposes:

		March 31 1991	March 31 1990
General Government Programs (Note 1)		$ 5,248	$ 4,856
The Manitoba Hydro-Electric Board		4,320	3,913
Other		1,474	1,174
	*	$ 11,042	$ 9,943

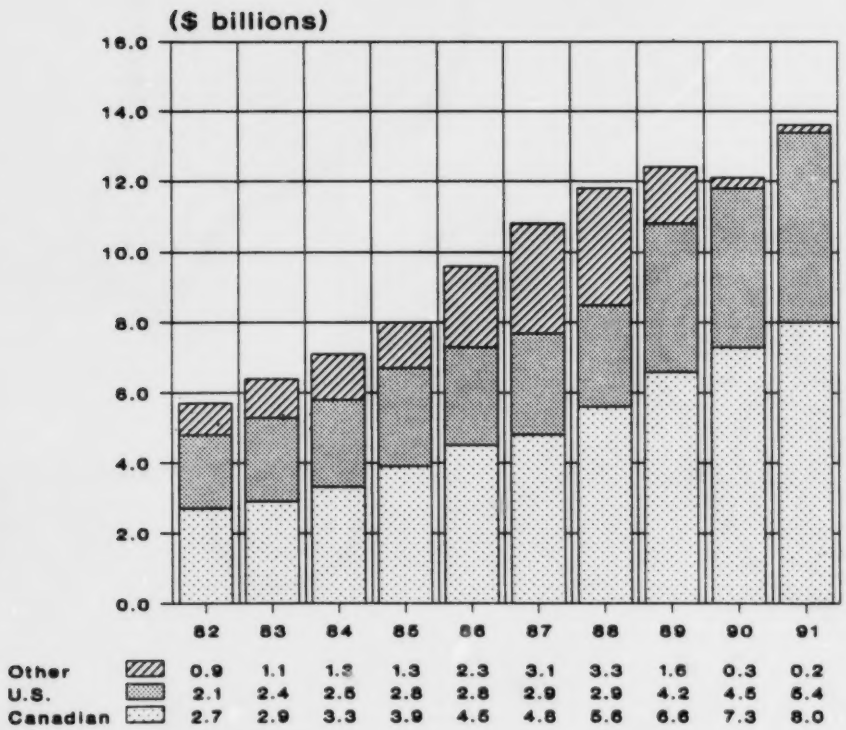
Note 1: Includes $364 million (1990 - $372 million) of cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province. Consolidation with the Provincial accounts would require Manitoba Properties Inc. debt to be reclassified as Direct Province of Manitoba debt.

The increase in outstanding direct borrowings in 1991 over 1990 of $1,348, is mainly a result of the timing of when borrowings are incurred. Further details on direct and guaranteed borrowings are shown in Section 4 of Volume 1 of the Public Accounts.

The following graphs provide information about the Government's reported gross combined direct and guaranteed borrowings. Graph 8 shows the gross combined direct and guaranteed borrowings at the Canadian dollar equivalent as at March 31, split between Canadian dollar borrowings, U.S. dollar borrowings and other foreign currency borrowings.

Graph 8

Gross Combined Direct & Guaranteed Borrowings



Canadian Debt as a % of Total

1982 - 47.2%	1987 - 47.2%
1983 - 46.2%	1988 - 47.3%
1984 - 47.0%	1989 - 53.1%
1985 - 48.3%	1990 - 60.2%
1986 - 47.2%	1991 - 59.2%

The graph indicates a significantly greater portion of debt being in North American currencies. The Government has been converting its borrowings to Canadian and U.S. currency. As at March 31, 1991, 59.2% of the borrowings were payable in Canadian currency.

Loans and Advances

Loans and advances represent the recoverable funds that the Government has provided to Crown corporations, agencies, boards and commissions for Government programs. These funds are generally raised through borrowings.

Total reported loans and advances, net of sinking funds, increased by $470 million, from $4,101 million at March 31, 1990 to $4,571 million at March 31, 1991.

An overview of the net increase in the loans and advances to Crown corporations, agencies, boards and commissions, net of sinking funds is as follows *(in millions of dollars):*

	March 31		Increase
	1991	1990	(Decrease)
Loans and advances	$ 4,774	$ 4,287	$ 487
Less:			
Sinking funds of Crown agencies re borrowings by the Province	203	186	17
	$ 4,571	$ 4,101	
Net increase			$ 470

An analysis of the net increase of $470 million, by agency, is as follows *(in millions of dollars):*

Agency	Change in Loans and Advances	Less: Change in Sinking Funds	Net
Manitoba Agricultural Credit Corporation	$ 16	$ -	$ 16
Manitoba Crop Insurance	(58)	-	(58)
Manitoba Crop Insurance Reinsurance Account	28	-	28
Manitoba Data Services Commission	(8)	-	(8)
Manitoba Data Services Ltd.	10	-	10
Manitoba Development Corporation	4	-	4
Manitoba Hazardous Waste Management Corporation	2		2
Manitoba Housing and Renewal Corporation	39	2	37
Manitoba Hydro-Electric Board	406	11	395
Manitoba Properties Inc.	3	-	3
Manitoba Telephone System	46	3	43
Regional Family Services Agencies	3	-	3
Insulation Loan Program	(2)	-	(2)
Other - net	(2)	1	(3)
	$ 487	$ 17	$ 470

Further details of loans and advances to Crown corporations, agencies, boards and commissions are shown in Section 3 of Volume 1 of the Public Accounts.

The principal repayments and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The major agencies to which this applies are the Manitoba Housing and Renewal Corporation, for most of the principal and interest funding, and The Manitoba Agricultural Credit Corporation, for partial interest funding.

Long-Term Investments

The majority of the Province's long-term investments consist of shares and debentures of Crown corporations. The total long-term investments, shown in the Operating Fund statement of financial position and schedule 3 are $43 million at March 31, 1991, unchanged from the previous fiscal year.

Valuation Allowance

A valuation allowance is a provision for a decrease in the estimated realizable value of Government loans, advances and long-term investments. When it is determined that a particular asset has a value less than the recorded value, an allowance is set up against that asset and a charge is made to an expenditure appropriation so that the net amount reported in the financial statements for that asset equals the estimated realizable value.

The valuation allowance provided against loans and advances and long-term investments increased during the year by $5 million, from $68 million at March 31, 1990 to $73 million at March 31, 1991. A comparative summary of the valuation allowance, highlighting the allocation to expenditure and accumulated deficit, is as follows *(in millions of dollars):*

	March 31	
	1991	1990
Opening balance	$ 68	$ 214
Increase in valuation allowance charged to appropriations	10	13
Decrease related to the divestiture of Manfor Ltd.	-	(127)
Write-off of assets against valuation allowance	(5)	(32)
Closing balance	$ 73	$ 68

Details of the valuation allowance are reflected in the Operating Fund financial statements - statement of financial position, schedule 2 and schedule 3. The change in valuation allowance is set out in Public Accounts Section 3 of Volume 1.

Comparison of the Summary Financial Statements with the Consolidated Fund's Operating Fund Financial Statements

Summary Financial Statements

The limitations of specific purpose financial statements such as Manitoba's Operating Fund financial statements have been recognized. As a result, PSAAC developed recommendations for the preparation of Summary financial statements.

The Summary financial statements developed by the Government are based on PSAAC's Accounting Statement #3 - General Standards of Financial Statement Presentation for Governments, and Accounting Statement #4 - Defining the Government Reporting Entity. The Government has adopted the government reporting entity concepts recommended

by PSAAC and first published an abbreviated set of Summary financial statements for the fiscal year ended March 31, 1988.

The Summary financial statements present an overview of the full nature and extent of the financial affairs and resources for which the Government is responsible. They provide additional information on the economic impact of the Government's activities beyond that reflected in the Operating Fund financial statements. The financial position and operating results of special funds and those Government organizations that exist primarily to provide services to the Government and to deliver Government programs are combined with the Operating Fund on the consolidation basis. The financial position and operating results of those Government organizations that operate as distinct business enterprises are combined with the Operating Fund on the modified equity basis. The modified equity method results in an increase or decrease to the Government's net assets and operating results by reflecting changes in the net assets and liabilities and operating results of individual Government enterprises.

In the Summary financial statements for the year ended March 31, 1991, the Government is expected to combine the financial operations of all of its special funds and Crown organizations with the Operating Fund. They are also expected to include all business enterprise type Government agencies. Schedule 1 to the Summary financial statements lists those organizations that comprise the government reporting entity.

In 1990, in addition to all of its special funds and all business enterprise type Government agencies, only the significant Crown organizations had been included. As stated in note 1A to the March 31, 1990 financial statements; those organizations that had not been combined were not considered material and inclusion of their assets, liabilities and operating results would not have materially changed the financial statement presentation.

Operating Fund Financial Statements

The Operating Fund financial statements have their limitations. These financial statements only present the operating results and the financial position of the Operating Fund. They are only intended to account for the monies appropriated for expenditure by the Legislative Assembly. They do not provide an overall picture, including all of the operations for which the Government is responsible. They exclude the operations of special funds and organizations which provide services exclusively to the Government and through which the Government delivers programs.

General Comments

Our audits often result in recommendations to improve accountability and management practices. There are various ways of improving an organization's operations and it is management's responsibility to determine the alternative that best meets the organizations' needs. Previously reported recommendations have been updated in a summarized format. The full text of each recommendation can be found in our 1990 Report to the Legislative Assembly using the page reference indicated. Where the issue was originally reported to the Legislative Assembly prior to 1990, the reference to the original report has also been provided. The following summarizes the recommendations included in our last report and indicates the action reported as being taken or in process by those responsible for improvement. We report action taken or in process concerning our previous recommendations to ensure the underlying problems received the required attention.

Accountability for Government Policy Implementation

(1990 - page 27; 1989 - page 11)

RECOMMENDATIONS	STATUS OF ACTION
• Government consider establishing an improved accountability process with appropriate reporting and monitoring to ensure significant Government policy decisions and initiatives are appropriately implemented.	The Department of Finance will review this issue.

Administrative Practices for Crown Agencies

(1990 - page 36; 1982 - page 25)

RECOMMENDATIONS	STATUS OF ACTION
• Action be taken to address the need in the Manitoba public sector for greater consistency of administrative practices among and between Crown agencies and Departments. For example:	
- compensation of chairpersons	Crown Corporations Council are finalizing recommendations for the compensation for Board Members. Their opinion is that this has to be done first before they can address the compensation for chairpersons.

RECOMMENDATIONS	STATUS OF ACTION
and chief executive officers	A recommendation for entities under the purview of the Crown Corporations Council was submitted to the Minister of Finance for his consideration and action. Compensation for the CEOs of other Crown agencies have not been reviewed for consistency.
- variances between Crown agency compensation and civil service compensation and	Review of government senior officers is in process.
- payment of professional dues.	A Policy for payment of professional dues was established by the Crown Corporations Council for those Crown corporations under their purview. No action taken to ensure consistency among other Government agencies nor between agencies and departments.
• The roles of Ministers, Boards of Directors and executive management need to be clarified.	A policy has been developed by the Crown Corporations Council for the crown corporations under their purview. Applicability to other Government agencies is unclear.

Central Management of Information Technology

(1990 - page 37; 1989 - page 20)

RECOMMENDATIONS	STATUS OF ACTION
• Information on under-utilized technological and staff resources across government be developed to assist with the Government's technological development secondment program.	The Information Technology Review Office is currently reviewing the information technology strategy for the Government. The optimum utilization of corporate systems resources is being considered in conjunction with the development of this revised systems strategy. This includes evaluation of the effectiveness of the technological development secondment program. Pending completion of this review, all activities related to this program have been temporarily suspended.
• Treasury Board approve the policies set out in the Information Systems Technology Guide. • The section of the Information Systems Technology Guide dealing with the strategic plan be completed and distributed as soon as practical.	A complete review of the Information Systems Technology Guide is currently underway. The revised Guide will be forwarded for review and approval by Treasury Board. Subsequent to this approval, revised technology guides will be issued to all departments with a clear indication of Treasury Board's approval and support of the policy issues contained in the Guide.
• The Information Technology Review Office should periodically report to Treasury Board on the progress of its ongoing projects which are important to government so that it is known whether progress is satisfactory.	Recommendations implemented.

Computer Processing Disaster Recovery Plan

(1990 - page 39; 1983 - page 24)

RECOMMENDATIONS	STATUS OF ACTION
• Treasury Board needs to decide which systems are critical to the operation of the Government and priorize those critical systems.	Recommendations being implemented. A Security Officer has been appointed to safeguard the integrity of the Government's electronic information and data. A security strategy and corresponding disaster priority guidelines have been developed and communicated to departments. These guidelines were reviewed and approved by Treasury Board. All departments have been required to produce an inventory of critical files and not-so-critical files based on application of these guidelines. A committee will be established to review the files identified by departments as critical and to priorize the critical files from a government perspective. A report will be submitted to Treasury Board with recommendations on the priority of the critical systems. Once approved by Treasury Board, these will then be communicated throughout government.

Crown Agency Accountability to the Legislature

(1990 - page 35; 1988 - page 22)

RECOMMENDATIONS	STATUS OF ACTION
• Responsibility for the monitoring of Crown agencies not now reporting to a Committee of the Assembly, including those which the Government has only a partial interest, needs to be clarified.	The Crown Corporations Council have identified certain additional Crown corporations which could be monitored by them. This information has been provided to the Government. Responsibility for monitoring other Crown agencies still needs to be clarified.
• The Government should give further consideration to strengthening Crown agency accountability to the Legislature.	No action taken.

Departmental Annual Reports

(1990 - page 37; 1984 - page 29)

RECOMMENDATIONS	STATUS OF ACTION
• The Government should monitor the development of the annual reports to ensure departmental compliance with the newly released guidelines.	Recommendations implemented.

Estimates

(1990 - page 23; 1989 - page 6)

RECOMMENDATIONS	STATUS OF ACTION
• The Government should develop a standardized automated Estimates system for use by departments and central agencies.	This is being considered in conjunction with the Integrated Financial Information System project.
• The Government should determine the practicality of developing Estimates on a two-year cycle.	No action taken.
• Consideration should be given to improving the results-oriented information included in the Supplementary Information for Legislative Review.	Recommendations being implemented. We recognize improvements have been achieved in the expected results information which is reported in the Supplementary Information for Legislative Review. We encourage the departments to develop enhanced information on operating costs of significant activities, how the program objectives are to be achieved and how expected program results are to measured.
• Consideration should be given to providing the Legislative Assembly with more detailed information on significant revenues in the Supplements.	Recommendation implemented.
• Consideration should be given to providing Members with more complete analysis of the projected deficit and the borrowing program.	The Department of Finance will look at options available to provide Members with a more complete analysis.
• Preparation and legislative review of the Estimates should be done on a more timely basis.	While improvements have been made, the legislative review of the 1991 Estimates was not completed until approximately four months into the fiscal year. Plans for 1992-93 indicate that the review will be completed on a more timely basis.

Financial and Management Information Systems

(1990 - page 29; 1988 - page 14)

RECOMMENDATIONS	STATUS OF ACTION
• The Government should continue in its efforts to develop an integrated financial and management information system.	Recommendations being implemented. The Integrated Financial Information System project continues to progress.
• The integrated financial and management information system project design should be completed as soon as practicable and recommendations for an appropriate system be forwarded to Treasury Board for consideration.	Recommendations being implemented. A proposed system design is being developed which will be submitted to Treasury Board for consideration.

Internal Audit

(1990 - page 30; 1989 - page 12)

RECOMMENDATIONS	STATUS OF ACTION
• A central audit resource group should be identified to assist deputy ministers discharge their responsibilities relating to compliance with internal audit policy.	A review of the internal audit function within government departments is being conducted by representatives from the Department of Finance, Treasury Board Secretariat and several departments. Our recommendations will be considered by the working group.

RECOMMENDATIONS	STATUS OF ACTION
• The Internal Management Audit Group, with leadership and guidance from the central resource group, take a more active role in the development of internal auditing within the Manitoba Government.	See above.
• Action be taken to improve the management and audit practices of the internal audit functions in Government.	See above.

Overtime

(1990 - page 17)

RECOMMENDATIONS	STATUS OF ACTION
Our review indicated that the cental information system is not providing departments with necessary information for effective decision making.	
We recommended that:	
• The Civil Service Commission incorporate the capturing of overtime data from attendance reports into the Manitoba Employee Information System (MEIS).	A MEIS Project steering committee, including representatives from Treasury Board, the Department of Finance and user Departments is overseeing development of a microcomputer system based on an application being developed by the Department of Natural Resources. This system is intended to interface with MEIS and the central payroll systems.
• The Civil Service Commission make further attempts to involve all user departments to ensure the establishment of government-wide standards in this area.	

RECOMMENDATIONS	STATUS OF ACTION
Our review also indicated that there is an absence of central reporting of overtime to senior management within departments to enable them to appropriately analyze and evaluate the use of limited staff resources in the performance of the department's programs.	
We recommended that:	
• Overtime records be maintained at each department's central location permitting the production of periodic reports of total accumulated overtime and its disposition through payout and compensatory leave.	Once the system described above is operational, overtime information will be available at each department's central location, will be available for Deputy Ministers and will be available to Treasury Board. This application is expected to be functional in mid-1992.
• A report of this nature be forwarded to the department's Deputy Minister for review on a periodic basis.	In addition to the above, information on overtime utilization will be requested from all departments as part of the 1992/93 Estimates process.
• Departmental overtime information should be made available to Treasury Board, enabling an overall evaluation of the overtime policy.	

Program Expenditures

(1990 - page 32; 1988 - page 14)

RECOMMENDATIONS	STATUS OF ACTION
• The Government review and determine the cost of implementing practical policies and procedures to allocate significant centrally incurred expenditures to applicable departments and Crown agencies.	Active consideration is being given to this recommendation in the plans for the Integrated Financial Information System.

Public Accounts Committee

(1990 - page 34; 1986 - page 37)

RECOMMENDATIONS	STATUS OF ACTION
• The Committee, to be more effective, needs to carry out its responsibilities on a more timely basis.	No action taken.
• The Committee consider calling ministers and their officials to respond to questions concerning issues raised in our report or other matters as the Committee may direct.	No action taken.
• The Committee consider adopting a working agenda.	No action taken.
• Questions to be raised at committee meetings should be provided in advance of the meeting.	No action taken.

Review of the Legislative Assembly Offices

(1990 - page 9)

RECOMMENDATIONS	STATUS OF ACTION
We recommended the following to improve support provided to Members of the Legislative Assembly and to otherwise improve the efficiency and effectiveness of the operations of the Legislative Assembly Offices:	
• Reorganize the administration functions within the Offices of the Legislative Assembly.	No action taken.

STATUS OF PREVIOUS RECOMMENDATIONS - GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

RECOMMENDATIONS	STATUS OF ACTION
• Hire a separate Law Officer reporting to the Speaker. The position should be transferred from the Department of Justice - Legislative Counsel.	No action taken.
• Improve the standing committee system.	No action taken.
• Improve the information support systems.	Wang system implemented. Specific information support systems are being developed.
• Improve security within the Legislative Building along the lines suggested by the Department of Government Services.	Recommendations implemented.
• Strengthen management practices within the Offices.	Recommendations being implemented. Staff members have participated in seminars to improve their understanding of effective management practices.
• Review and improve the documentation of the guidelines for Legislative Assembly expenditures. The guidelines need to adhere to the intent of legislation and need to be effectively communicated to MLAs.	Bill 33 of the 2nd Session of the 25th Legislature amends The Legislative Assembly Act to provide for the Legislative Assembly Management Commission to make rules governing Members' expenses. However, formal documented guidelines regarding expenditures have not yet been developed and provided to Members.

RECOMMENDATIONS	STATUS OF ACTION
• Consideration be given to the Legislative Assembly paying for constituency office expenses and maintaining ownership of all fixed assets.	Bill 33 of the 2nd Session of the 35th Legislature amended The Legislative Assembly Act such that on the day a Member ceases to be a Member, all property that he or she has purchased using constituency and access allowance is deemed to be the property of the Legislative Assembly. This resolves our concerns regarding fixed assets. No action has been taken to have the Legislative Assembly pay for constituency office expenses.

Review of Specific Expenditures

(1990 - page 20)

RECOMMENDATIONS	STATUS OF ACTION
Treasury Board Secretariat direct departments to adhere to Government policy. Specific findings related to senior management expense claims and relocation expenses.	Treasury Board Secretariat will provide direction to departments in the future.

Training

(1990 - page 33; 1989 - page 22)

RECOMMENDATIONS	STATUS OF ACTION
• Each department produce a summary report of its training and development results. • Departments strive to achieve a better link between training and development activities and long-term plans.	The Civil Service Commission and the Treasury Board Secretariat have agreed to establish a joint implementation team to develop a framework for departments which would assist them in linking training and other development activities to their longer-term objectives for human resources and their overall departmental strategic plans. It is anticipated that the implementation team would include departmental representation as well. This framework would include a reporting requirement for departments which would facilitate the assessment of the training function in the department and whether key objectives are being met.

Untendered Contracts

(1990 - page 13)

RECOMMENDATIONS	STATUS OF ACTION
• The term "public tender" in The Financial Administration Act (FAA) should be clarified to clearly identify the type of contract arrangements expected to be reported to the Minister of Finance for public information.	Consideration is being given to place the FAA on the agenda for legislative amendment.

RECOMMENDATIONS	STATUS OF ACTION
• The legislative reference "to any department or agency for which a Minister is responsible" be clarified, particularly with respect to the definition of agency as used in The Financial Administration Act.	See above.
• The legislation stipulate how the Minister of Finance is to make the untendered contract information available to the public.	See above.
• Procedural guidelines be documented in the Financial Administration Manual and the General Manual of Administration.	The intention is to amend the FAM and GMA after amending the Act.
• The Department of Finance Coordinator or other delegated official follow up on missing reports and the reasons for late submission or subsequent amendments.	The Department of Finance Coordinator indicated to us that missing reports are being followed up to the best of their ability with the current manual system. The Department is currently in the process of developing a computerized system which will greatly facilitate the process.

Manitoba Research Council

(1990 - page 56; 1988 - 39)

RECOMMENDATIONS	STATUS OF ACTION
• Improvements be made to the Manitoba Research Council's financial information systems and certain aspects of its management practices as soon as practicable.	Recommendations being implemented. The financial information system previously planned is being replaced by a simplified accounting package. The Council believes that the system will be operational in 1991-92 and will meet its basic requirements.

MTX Telecom Services Inc.

(1990 - page 57; 1985 - page 49)

• Since several matters still require resolution, it was not possible to make a final determination of the costs of winding down MTX.	The wind-down is nearing completion. The financial statements of MTX for the year ended March 31, 1991 includes full provision for estimated losses and liabilities.

Public Trustee's Office

(1990 - page 57; 1988 - 41)

RECOMMENDATIONS	STATUS OF ACTION
• The Public Trustee's Office required a strengthening of its comptrollership function.	The current Public Trustee, since her appointment in April, 1991 identified the resolution of outstanding issues as a high priority.
- Improve documentation and monitoring by management of clients' chattels and the recording of assets.	Recommendation being implemented. The Public Trustee has taken action to address this issue through the recent issuance of a Procedures Manual.
- Improve human resource planning.	Recommendation being implemented. The Public Trustee has taken action to address a number of human resource issues.
- Improve documentation of key procedures.	Recommendations being implemented.
- Internal audit function.	No action taken.
- Review of the investment policies for the Common Fund.	Recommendation being implemented.
• Undertake a thorough review of these operations and develop an action plan to strengthen practices and controls.	Recommendation being implemented.

Workers Compensation Board

(1990 - page 58; 1983 - 38)

RECOMMENDATIONS	STATUS OF ACTION
• The Board continue to develop a program framework, and the Government take actions, to address the issue of compliance with legislation and to retire the program's significant unfunded liabilities.	Recommendations being implemented. For the past several years, the Board has taken steps to reform the compensation program and its administration. In 1991, the Board continued to build on these initiatives by recommending significant amendments to The Workers Compensation Act. The Legislature passed the amendments. These efforts have resulted in major changes to meet the Board's mandate and to provide a sound fiscal strategy for funding the Board's operations.

Department of Cooperative, Consumer & Corporate Affairs

RECOMMENDATIONS	STATUS OF ACTION
Insurance Corporations Tax (1990 - page 42)	
• The Department review the necessity of its interest penalty and if it is to be retained then the interest rate should be reviewed.	Recommendation being implemented. The Act is being amended to remove the requirement of an interest penalty.
• Consideration be given to setting tax rates and penalties, etc. by way of regulation rather than embodied in the Act. This would facilitate future changes.	Recommendation being implemented. Officials agree with the recommendation and plan to make the necessary changes as soon as practicable.
The Cooperatives Act (1990 - page 59; 1989 - page 41)	
• The Department should complete the review of the legislation requiring all cooperatives to submit audited financial statements and recommend appropriate amendments which continue to adequately protect members of the cooperatives.	Recommendation implemented.
The Cemeteries Act (1990 - page 60; 1989 - page 42)	
• Appropriate legislative changes be made to adequately protect the public for funds prepaid by the public to cemetery owners for burial services. One option is to establish a legislative trust arrangement to be monitored by the Public Utilities Board.	Draft amendments to the Act to address all concerns are being developed for presentation to the Minister.

Department of Education and Training

(1990 - page 44)

Review of Accounts Receivable

RECOMMENDATIONS	STATUS OF ACTION
• The Manitoba Student Financial Assistance Branch strengthen its collection procedures for outstanding accounts receivable.	Recommendation being implemented.

Department of Education and Training and Public Schools Finance Board

(1990 - page 61; 1989 - page 37)

Government Support to Education

RECOMMENDATIONS	STATUS OF ACTION
• Clarify both the mandate and organizational structure of the Public Schools Finance Board (PSFB) and the Department of Education and Training as it relates to the Government Support to Education program.	Recommendation implemented.
• Future financial statements of the PSFB be prepared in a manner consistent with its mandate and organizational structure.	Recommendation being implemented.

Department of Family Services

(1990 - page 63; 1983 - page 28)

RECOMMENDATIONS	STATUS OF ACTION
Special Audit - Winnipeg South Child and Family Services Agency	
• Communication between the Agency and Government, via the Department, needs to be significantly improved, particularly in the area of budget coordination.	Recommendation being implemented.
• Documentation requirements need to be improved within the Agency and between the Agency and the Department.	Recommendation being implemented.
• The Agency's management practices need to be strengthened.	Recommendation being implemented.
External Agency Accountability - Rehabilitation and Community Living Division	
• The Division apply analytical review procedures to all external agency financial statements to ensure grant accountability procedures are complete.	The Division is developing an action plan to implement our recommendation.
Management Information Systems - Rehabilitation and Community Living Division	
• Assessment of information system needs and development of information systems be accorded a high priority.	Recommendation implemented.

RECOMMENDATIONS	STATUS OF ACTION
Management Information Systems - Child and Family Services Division	
• The Department proceed with implementation of a comprehensive management information system on a priority basis.	Recommendation implemented.
Agreement for Responsibility for Treaty Indian Child Welfare Costs	
• The Department initiate negotiations towards a new agreement to replace the old agreement which expired February 1987.	Recommendation implemented.
External Agency Accountability - Child and Family Services Division	
• The Department should improve its monitoring of external agencies to ensure that agencies provide the programs and services mandated by The Child and Family Services Act and are accountable for funds granted.	Recommendation implemented.

Department of Health

Regional Office Operations (1990 - page 49)	
• Department officials should review the financial management and administration controls in regional offices on a timely basis.	Recommendations implemented.

RECOMMENDATIONS	STATUS OF ACTION
• Staff performance evaluations be conducted at least annually and maintained in personnel files.	Recommendations implemented. Staff appraisal forms have been distributed to supervisors for completion. Follow up of forms completion is still required.
• Documentation related to quarterly status report be improved to include quarterly status calculations, adjustments and expanded variance explanations.	Recommendation implemented.
• Regional offices be provided with a financial and administrative services manual to assist staff in carrying out their responsibilities.	Recommendation implemented.
• Emergency Purchase Orders be controlled and accounted for in accordance with established guidelines.	Recommendation implemented.
• Central personnel records be reviewed to ensure that all sick leave records are maintained in a current position and payroll deduction documentation is on file where appropriate.	Recommendation implemented.
• Department management communicate to the regions the usefulness of the expenditure status report and the adequacy of the information provided.	Recommendation implemented.

Department of Justice

RECOMMENDATIONS	STATUS OF ACTION
Court Accounting Systems (1990 - page 53)	
• The Department implement a fines and costs receivable system in the courts as soon as practicable.	Senior Department officials have approved implementation of the system. However, implementation has been delayed due to financial constraints and other priorities.
Personal Property Security Registry (1990 - page 53)	
• The Department proceed with the proposed system revision to ensure the monthly reconciliation of deposit accounts to a control total on a timely basis.	Implementation has been delayed due to staffing vacancies and other priorities. Officials anticipate the system will be developed in the 1992 fiscal year.

Department of Northern Affairs

(1990 - page 70; 1987 - page 57)

RECOMMENDATIONS	STATUS OF ACTION
• The Department improve its grant accountability processes and its performance appraisal system.	Recommendations being implemented.
The Northern Affairs Fund	
• Department officials take action to bring the audits of self-administered communities into a current position and conduct timely audits thereafter.	Recommendations being implemented.

Accounting Policies

(1990 - Page 77)

RECOMMENDATIONS	STATUS OF ACTION
We previously reported that the Government's accounting policies need to be changed to bring them in compliance with recommendations of the Canadian Institute of Chartered Accountant's Public Sector Accounting and Auditing Committee (PSAAC).	
We recommended that:	
• the Government work towards compliance with PSAAC recommendations and record the pension liabilities and associated pension costs.	Under active consideration by Department of Finance officials.
• the Government instruct all Crown agencies to adopt appropriate accounting policies for recording pension liabilities and associated pension costs.	No action taken, pending resolution of the Government's position.
• the Government take steps to amend its accounting policies to record other employee benefit liabilities such as severance pay, vacation entitlements, sick leave and long-term disability.	This is being reviewed by the Department of Finance in conjunction with the pension issue.
• the Government take steps to develop information for recognizing fixed assets purchased and available to provide future services to Manitobans.	Department of Finance officials are waiting for guidance from the Canadian Institute of Chartered Accountants in the form of accounting recommendations for the public sector.
• the Government continue to work to complete the development of its Summary financial statements for the March 31, 1991 year-end.	Recommendations implemented.

Classification of Trust Funds

(1990 - page 81)

RECOMMENDATIONS	STATUS OF ACTION
We have previously reported that the Government classifies certain operating type funds as trust funds. This is being done to be in accordance with legislation establishing these funds or for banking or investment purposes. We reported that certain of these funds do not meet the criteria of a trust fund because a fiduciary trust relationship does not exist.	
We recommended that:	
• the balances remaining in the lottery trust funds be combined with the Operating Fund for reporting purposes. To assist with this, we recommend the Government consider amending the legislation establishing the lottery funds as trust funds.	No action taken.
• the Government review all funds in the Trust Fund Section of the Consolidated Fund. Those funds that do not meet the criteria of a trust fund be combined with the Operating Fund for reporting purposes. To assist with this, we recommend that the Government consider amending any legislation that establishes these funds as trust funds.	No action taken.

Completion of Public Accounts

(1990 - page 82)

RECOMMENDATIONS	STATUS OF ACTION
We recommended that the Government: • place a higher priority on the completion and release of its Public Accounts and • continue to work to complete the Public Accounts on as early a time frame as practicable, with a target date of September 30.	Recommendations being implemented. Significant progress has been made in 1991 as Volumes I and II are scheduled for release in early December, 1991 and Volume III is scheduled for release in early 1992. Volumes I and II of Public Accounts for the year ended March 31, 1990 were released on December 20, 1990 and Volume III was released on March 21, 1991.

Fiscal Stabilization Fund

(1990 - page 12)

RECOMMENDATIONS	STATUS OF ACTION
• Preferred shares of Repap Enterprises Inc. received from the sale of Manfor Ltd. have been transferred to the Fiscal Stabilization Fund and recorded in the Fund's financial statements as an asset at their future potential redemption value of $77,638,700. Because realization of these shares is dependent on the future profitability of Manfor Ltd., or its successors and other conditions being fulfilled well into the future, the shares are not an assets of the kind that presently can be used for the purposes of the Fund. Furthermore, the historical financial results of the Manfor operations have been unfavourable, and future profitability is uncertain.	No action taken. An allowance related to the asset in the form of an "unrealized recovery" was recorded when the preferred shares were transferred into the Fiscal Stabilization Fund. The Government believes that this allowance is sufficient until there is more certainty regarding the future realization of the asset.

RECOMMENDATIONS	STATUS OF ACTION
We recommend that a valuation allowance of $77,638,700 be recorded against the asset value in the financial statements of the Fund to appropriately reflect this situation.	

Organization and Activities of the Provincial Auditor's Office

Organization

Our staff complement as at March 31, 1991 was 58 positions. This was unchanged from the preceding year. The 58 positions consisted of 5 executives (forming the management committee); 15 audit managers; 32 auditors and technical staff; 4 administrative support staff and 2 vacant positions. In April of 1991 these 2 vacant positions were eliminated in response to the Government's policy of restraint.

Term staff were used to assist the Office in meeting its objectives in peak workload periods.

Included in the 58 positions were 41 professional staff. These professional staff included 20 Chartered Accountants, 13 Certified Management Accountants and 8 Certified General Accountants. Our professional staff maintain memberships in professional accounting associations. This enables staff to keep abreast of new developments and technology in our profession. Our staff personally pay for these memberships.

We continue to contract with an accounting firm to provide the services of a partner who is an internationally recognized computer auditing specialist. He assists us in maintaining high standards of professional practice in this fast changing and increasingly complex area of auditing. He also assists in the high level training of and support to our staff in computer systems auditing and technology.

The Office's organizational structure is set out in the Organizational Chart, Exhibit 3. The organizational structure has not changed from the preceding year.

Activities:

General

We review the way we meet our mandate on an ongoing basis to ensure our responsibilities are being discharged effectively and efficiently. Each year the Office's Executive conducts in-depth planning sessions. During these planning sessions we review and update our strategic plan. This includes carrying out a comprehensive needs assessment, establishing measurable objectives and identifying key results which will measure the achievement of the objectives. From the strategic plan, we establish our required resources and allocate the audit activities to the various audit teams. During the planning sessions, we also review and establish longer-term plans. We prepare our yearly operating budget based upon our strategic plans. We monitor, report and evaluate our operations based on our strategic plan.

Several changes resulted from the planning process. The audit staff and audit assignments were realigned to more effectively match staff members' skills with work assignments and to facilitate planning of special audits and project audits. Currently, our attest audit staff conduct the field work necessary to allow the Provincial Auditor to express an opinion on the fairness of the financial statements of the Government and various Crown agencies. In conjunction with the attest audits, these staff members also audit for compliance with authority and address attest and compliance related broader scope issues. Our project audit staff conduct special audits, inspection audits and other project audits which we believe are of importance to the Members of the Legislative Assembly. Previously, these assignments were pooled and staff were assigned to work on both attest and project audits.

Government Audit

We audit the operations of the Government of the Province of Manitoba. One of our key responsibilities in this work is the attest audit of the Government's financial statements included in the Public Accounts. We also audit aspects of operations of each of the departments of Government and the Legislative Assembly Offices annually. For the 1991 fiscal year, this included 23 departments and the Legislative Assembly Offices. This is unchanged from the preceding fiscal year. As part of our Government audit, we audit 5 departmental funds as listed in Exhibit 5. This is the same number as last year.

Our Government audit work includes the pre-audit of departmental and other government expenditures. For the fiscal year ended March 31, 1991, we examined 434,424 requests for payment, inter-department transfers and journal vouchers (1990 - 453,549). We identified 3,525 errors in the requests for payment which had to be corrected by departments before processing (1990 - 3,750). We did not have to refuse any requests for payments during the past year.

As part of our audit of the Department of Finance, we review prospectus material. Input from our Office regarding the review of financial information in prospectus documents may be required when the Government raises funds through borrowings. The nature of our involvement varies, depending on the jurisdiction in which the funds are being raised. Our involvement relates to reviewing prepared material, verifying reported operating results and other financial data and commenting on the appropriateness of the financial information included in the prospectus documents. Funds raised through borrowings from the Canada Pension Plan, issues of Treasury Bills and loans from the Government of Canada do not require input from our Office, as prospectuses are not required. To raise funds in 1991, the Province went to the market for 7 new debt issues, plus Canada Pension Plan debentures, Treasury Bills and a loan from the Government of Canada. We were involved in the U.S. Shelf Prospectus filing and 6 of 7 debt issues (1990 - U.S. Shelf Prospectus filing and 1 of 6 debt issues).

Agency Audits

Attest audits

We performed attest audits for 47 Crown agencies this year as compared to 52 agencies last year. The financial statements of these agencies have either been reported on, or are in the process of being reported on, by our Office. The 47 agencies are listed in Exhibit 4 of this report.

Five Crown agencies have ceased operations and did not require an audit during the year. These agencies are the Manitoba Training Advisory Council Inc., Public Investments Corporation of Manitoba, University of Manitoba Research Ltd., University of Manitoba Research and Development Ltd., and Workplace Innovation Centre.

The Manitoba Data Services Commission was sold to the private sector during the year and consequently is no longer audited by our office.

We are now auditing the Manitoba Home Care Employees' Benefits Trust Fund which is listed on Exhibit 4.

Overview audits

We did overview audits of the 15 Government agencies listed in Exhibit 6, which has not changed since last year. The attest audits of these agencies were completed by private-sector auditors.

Project Audits

Project audits may be broader scope or compliance audits that are initiated by our Office.

The new matters in our report relating to the Government's Central Management System and Agencies and Departments have primarily resulted from project audits.

Special Audits

During the fiscal year ended March 31, 1991 the Office undertook four special audits. All four special audits have been completed and reported on.

Inspection Audits

We completed and reported on the audit of the Society of Manitobans with Disabilities, Inc. for the fiscal year ended March 31, 1991. The Government is the principal funder of this agency. Other inspection audits are in process.

Staff Training

We continued to base our staff training and development program on a combination of on-the-job training, formal training courses and participation in conferences sponsored by various professional organizations.

Last year we introduced our newly updated Office manual with in-house seminars for all staff members. This year we held in-house audit update seminars for all staff members.

In addition to the in-house seminars, we continued to participate in outside conferences and courses directly related to our work and which we consider should help us be more effective. We attended the annual conference of the Canadian Comprehensive Auditing Foundation and certain courses sponsored by the Civil Service Commission. We also provided staff members with financial assistance for degree and professional programs. We also were involved with outside organizations such as the Canadian Institute of Chartered Accountants, the EDP Auditors' Association, the Internal Auditors' Association, the Government Financial Officers Association, and the Institute of Public Administration. One of our Directors met with his counterparts from other provinces at the Legislative Auditors' Practices Committee. This group facilitates inter-provincial communication on legislative audit practices and related training.

Reporting on Effectiveness

Last year the Manitoba government, with financial assistance from the Canadian Comprehensive Auditing Foundation (CCAF), undertook a pilot project to test the methodology for reviewing and reporting on effectiveness in government. Two government programs were selected for testing the methodology. The pilot project team included individuals from the program areas being reviewed, members of central agencies, other members from across Government and two audit managers from our Office. Advisory services were provided by a partner from a national consulting firm. The objectives of the review were to assess the methodology and, in the process, to assess the organizational effectiveness of the two programs in relation to the twelve attributes of effectiveness developed by the CCAF. The goal was to determine how the methodology could best be implemented and to assess the usefulness and applicability of the reporting framework from Manitoba's perspective.

Manitoba's experience with the effectiveness reporting framework, and the values and principles that underlie it, showed that these concepts will help government decision makers address the critical issues and choices they are facing. However, while recognizing the real potential inherent in these concepts, further proficiency in the application of the framework is required before its full potential can be achieved.

Manitoba's experience with the effectiveness reporting framework was presented to delegates at the CCAF's annual conference and has been published by the CCAF as a part of its applied research series.

Professional Practices

The professional practices section of the Office is responsible for:

- the development and maintenance of auditing policies, standards and procedures;
- post-audit quality control reviews;
- pre-release concurring reviews in support of the Provincial Auditor and relevant Audit Executive, in special or high risk situations; and
- providing advice to the Office on the interpretation and appropriateness of accounting policies with respect to financial statement disclosures.

Standards and procedures are assessed periodically and resulting changes communicated to all staff through our in-house training program. Last year we completed a major update and reorganization of our audit policy manual, and supporting audit forms, to align our practices with contemporary attest auditing strategies. This year we continued to update our manual and audit forms to reflect developments that have occurred in the auditing profession.

Quality control reviews are performed to ensure that the work of the Office meets the professional standards of the Office as well as the Canadian Institute of Chartered Accountants. The results of the reviews are used directly in developing our audit policies and our training seminars. Quality control review activities will continue to be a focal point for the Office to maintain its high standards of audit effectiveness and efficiency.

Professional practices also provides consultive advice to audit staff on audit assignments and provides support to the Provincial Auditor and relevant Audit Executive in reviewing specific audit issues, in identifying new approaches to audit methodologies and in maintaining an overall knowledge of current developments in the public and private auditing sectors.

Meeting of Legislative Auditors

The Canadian Conference of Legislative Auditors is an informal association of the legislative auditors of Canada and the Provinces. These meetings serve as an excellent forum for the exchange of information on matters of mutual interest and the discussion of technical information important to the work of our Offices. The conferences are held in conjunction with the Canadian Council of Public Accounts Committees and include joint sessions where legislative auditors and Public Accounts Committee members explore issues of mutual interest.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1991 as compared with the estimate, and with the actual revenue and expenditure of the preceding year are shown below (in thousands of dollars):

Comparison of Actual Revenue and Expenditure to Estimate - March 31, 1991

	Actual	Estimate	Variance
Revenue	$ 701.2	$ 781.0	$ (79.8)
Expenditure:			
Salary	2,482.4	2,630.9	(148.5)
Other	148.3	180.6	(32.3)
	2,630.7	2,811.5	(180.8)
Expenditure over revenue	$ 1,929.5	$ 2,030.5	$ (101)

Comparison of Actual Revenue and Expenditure to the Preceding Year

	Actual		
	March 31		Increase
	1991	1990	(Decrease)
Revenue	$ 701.2	$ 765.8	$ (64.6)
Expenditure:			
Salary	2,482.4	2,392.3	90.1
Other	148.3	147.4	.9
	2,630.7	2,539.7	91.0
Expenditure over revenue	$ 1,929.5	$ 1,773.9	$ 155.6

Variance Explanations:

Revenue

The decrease in actual over the estimate primarily resulted from audits completed subsequent to the year-end whose billings were issued and paid in 1991-92. The decrease in actual from the previous year mainly resulted from audits for Crown agencies which had ceased operations in 1991, and 1990 including receipts from previous year's billings which was not the case in 1991.

Expenditure

The decrease in actual salary expenditures from the estimate is attributable to delays in filling vacancies caused by staff departures.

Five Year Expenditure and Staffing Summary

1986/87		1987/88		1988/89		1989/90		1990/91	
SY	$	SY	$	SY	$	SY	$	SY	$
61	2.3M	59	2.3M	59	2.3M	58	2.5M	58	2.6M

Audit of the Accounts of the Provincial Auditor's Office

A professional accountant from the Comptroller's Division of the Department of Finance carried out an audit of the accounts of the Office of the Provincial Auditor in accordance with section 19 of The Provincial Auditor's Act. A copy of the audit report issued by the Comptroller is included in this report as Exhibit 7.

Legal Provisions

The Provincial Auditor and his staff operate under the authority of The Provincial Auditor's Act. Significant sections of the Act regarding our reporting responsibilities follow.

Report to Assembly

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the Report

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of Report

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in session, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Report on Government Statements

14 The Provincial Auditor shall examine the several financial statements required to be included in the Public Accounts under The Financial Administration Act, and any other statements which the member of the Executive Council charged with the administration of The Financial Administration Act may present for audit, and shall express his opinion as to whether they fairly present information in accordance with accounting policies of the Government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto.

Scope of Audit and Reporting Procedures

Role and Mission of the Office

The role and mission of the Office of the Provincial Auditor is to serve the Members of the Legislative Assembly and the public by providing independent audit opinions on Government and agency financial statements and evaluations on the financial and administrative management of the Government, its agencies and grant recipients. The Office also exists to promote improvement in financial and administrative management and accountability.

The role and mission of the Office of the Provincial Auditor may be viewed in relation to two key concepts: accountability and audit.

Accountability can be defined as the obligation to answer for a responsibility that has been delegated. It presumes the existence of at least two parties; one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged.

Audit can be defined as a process that is superimposed on an accountability relationship. It is carried out to establish that accountability reporting on the responsibility assumed is correct or fair. An audit is usually performed by a third party, primarily serving the interests of the party who delegated the responsibility. Audit results are normally communicated in formal audit reports.

One of the key objectives of the Office of the Provincial Auditor is to examine the administrative accountability of the Government to the Legislature. We also consider accountability relationships within Government administration, including those within departments and agencies, as part of the scope of our audits. The work of the Office provides independent information, advice and assurance to the Legislature and the public regarding accountability. As such it is an important link in the chain of accountability and stewardship of public funds.

In fulfilling its role and mission, the Office endorses the following basic philosophies:

- promotion of a service as opposed to a control function;
- development of a constructive, cooperative approach to improving administrative practices;
- recognition that staff are the prime resource for the development of improved systems and procedures;
- promotion of generally accepted accounting principles for the public sector and
- maintenance of sound administrative practices within our own Office in such areas as budgeting, expenditure control, staff training and management.

The Provincial Auditor is an independent officer of the Legislative Assembly and is accountable to the Legislative Assembly. The Provincial Auditor's Act sets out the Provincial Auditor's mandate.

The Provincial Auditor is required to carry out audits and report any cases where he has observed matters which he considers to be "of significance" and "of a nature" that should be reported to the Legislative Assembly. This provides a process for independent, objective assessment of the accountability reporting and the administrative practices and controls of the Government, its agencies and recipients of public moneys. To fulfill its mandate the Office carries out attest, compliance with authorities and broader scope audits of the Government, the Crown agencies listed in Exhibit 4, and departmental funds listed in Exhibit 5; broader scope and compliance with authorities audits of the Government agencies listed in Exhibit 6, whose attest audits are carried out by private-sector audit firms; inspection audits of selected recipients of public monies and; special audits, at the direction of the Lieutenant-Governor in Council or the Minister of Finance, provided they do not interfere with the Office's primary responsibilities.

Attest audits involve the expression of professional opinions on:

- the annual financial statements of the Government, those Crown agencies where the Provincial Auditor has been appointed attest auditor (Exhibit 4) and departmental funds (Exhibit 5);
- prospectus documents when the Government raises funds through borrowings and
- financial reports on cost-sharing arrangements.

Compliance with authorities audits involve:

- the examination of requests for payment from the Consolidated Fund; and
- reporting to the Legislative Assembly and Ministers of the Government cases observed where:

    . expenditures from the Consolidated Fund have been made without authority;
    . expenditures exceed the approved legislative vote;
    . expenditures have been made for purposes other than as voted by the Legislature and
    . there has been non-compliance with applicable legislation.

Broader scope audits include reporting to the Legislative Assembly and Ministers of the Government on the adequacy of management practices and controls, including those intended to safeguard assets and promote economic, efficient and effective use of resources. The audits may be conducted to examine and report on the administrative, financial and accountability systems, including internal controls and organizational relationships within Government, Crown agencies, departmental funds and recipients of public funds.

Our annual Report to the Legislative Assembly is the most important output from our activities. Our Report completes the Office's accountability cycle by reporting to the Assembly on the use of resources provided to the Office and the results of its work.

Our work results in recommendations for improving the financial and administrative management and accountability practices of Government, its agencies and grant recipients. The focus of these recommendations is the protection and prudent management of public resources.

The following paragraphs provide further detail on our activities and our reporting procedures.

Audits of the Provincial Government, Crown Agencies and Departmental Funds Entirely Audited by the Provincial Auditor

The Office performs audits of the Government of the Province of Manitoba, the Crown agencies listed in Exhibit 4, and departmental funds listed in Exhibit 5, using a risk-driven, audit approach under the direction of professional accountants. These audits consist of the following four components:

1. We undertake attest audits to express an opinion on the fairness of the presentation of the financial statements developed by Government or Crown agency officials. We conduct our examination in accordance with generally accepted auditing standards. This includes a general review and evaluation of the accounting procedures and internal financial controls, together with such tests of key financial controls, accounting records, and supporting evidence as are considered necessary in the circumstances.

2. We examine requests for payment from the Consolidated Fund as departments present them to the central system for processing. These examinations fall within the scope of our compliance and broader scope audit work. The examination meets the pre-audit requirements of sections 10 and 11 of The Provincial Auditor's Act. The pre-audit process also provides early detection of weaknesses or problems so prompt corrective action can be taken. This process also enables the Office to examine proposed special and unusual payments on a timely basis. The examination of payments from the Consolidated Fund consists of the following:

    a) We examine all requests for payment for legislative authority and approval by designated officials. During this work, we review all significant requests for payment to satisfy ourselves that they are being handled in a business-like manner to protect the Province's interests. This work includes checking requests for payment to contracts, Orders-in-Council and Treasury Board minutes. We would refuse requests for payment not meeting the above requirements. Where legislative authority for payment is lacking, payments cannot be made. Payment requests that we refuse for other

reasons can only be made by the special authority of the Minister of Finance. Audit observations arising from this process are normally attended to in a satisfactory manner to prevent any need for refusal. However, should there be a refusal which requires the special authority of the Minister of Finance, we would report the particulars to the Legislative Assembly in this Report.

b) We test check requests for payment for completeness of supporting documentation, compliance with Government directives, etc. to satisfy ourselves that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted requiring further attention are considered in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems reveals a breakdown, and we conclude that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, we would refuse further requests for payment. In such instances, in accordance with The Provincial Auditor's Act, payments could only then be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and we had to refuse payment requests, we would report the matter to the Legislative Assembly in this Report.

3. We examine the financial and administrative management practices and the related key internal controls to ascertain that the entity is organized and operating in an appropriate manner. These examinations are broader scope audits. Part of the objectives of this work is to satisfy ourselves that the financial and administrative practices of the entity give due regard to matters regarding economy, efficiency and effectiveness. We carry out these examinations within the capabilities of professional accountants with specialized training and experience. In reviewing the administrative management practices, we use the Government's Management Practices Guide as a standard. The examination may include reviews of:

- the entity's objectives and planning practices;
- its organizational structure;
- its budgeting and monitoring systems for comparing actual results with budgets and plans and determining variance explanations;
- its reporting and evaluation practices, including the internal audit system;
- its purchasing and personnel procedures and
- its adherence to Government guidelines.

4. We audit to determine that the entity is complying with legislation.

5. We may undertake a more in-depth investigation of specific concerns raised or observed during the above-mentioned examinations or noted from other sources.

Such other sources may be:

- the Legislative Assembly or any of its committees;
- the Lieutenant Governor in Council or the Minister of Finance, provided this does not interfere with our primary responsibilities;
- the news media and
- elected members, public servants and the general public.

We consider the sources of this information to be strictly confidential.

Overview Audits of Crown Agencies Whose Financial Statements Were Audited by Private-Sector Audit Firms

We carry out overview audits for those Crown agencies listed in Exhibit 6. These are agencies for which audit firms were appointed to carry out financial attest audits on the financial statements. Our overview audits may consist of a review of the audited financial statements, management reports of the audit firms and matters of a broader scope nature.

Special Audits

Section 15 of The Provincial Auditor's Act provides authority for the Provincial Auditor to undertake special audits. Special audits may be undertaken as considered appropriate and as requested. The Lieutenant Governor in Council or the member of the Executive Council charged with the administration of The Financial Administration Act may request the Provincial Auditor to undertake special audits. If the audit does not interfere with the Office's primary responsibilities, the Provincial Auditor accepts the special audit and gives it a high priority. The special audits may relate to any aspect of an entity's operations and may encompass procedures as previously described in components 1, 3, 4 and 5.

Inspection Audits

We conduct inspection audits of recipients of public funds under the authority of section 17(4) of The Provincial Auditor's Act. The audit procedures are similar to those of the management overview audits described previously in components 3, 4 and 5. These audits are limited in number. We review a large number of grantees for accountability during the audits of the Government departments and Crown agencies. These reviews mainly consist of an evaluation of the adequacy of the grantors' systems to monitor the grantees' accountability of funds received. We also assess grant accountability concerns observed by the grantor and determine if the grantor has taken corrective action.

Involvement in Prospectuses

The Government of the Province of Manitoba raises funds in financial markets to meet a

portion of its requirements. The Government uses the funds to:

- finance general Government programs;
- provide advances to Crown corporations and agencies for programs and capital projects and
- replace maturing debt.

The Government raises the funds it requires through the issuance of debt instruments. The Government has raised funds in Canada, the United States of America, Europe, and the Orient. The issuance of prospectuses is an important part of raising funds. Prospectuses are essential documents, as they help potential investors evaluate the attractiveness of purchasing Manitoba Government debt instruments. The various jurisdictions in which the Government raises funds have different informational requirements. In some jurisdictions, the prospectus documents must include comprehensive historical and financial information about Manitoba, the Government's financial condition and operations. In addition, information about the operations of major Crown entities established by the Government is required. The United States requires input from our Office regarding a review of financial information included in the prospectus documents. Other jurisdictions have less stringent informational requirements.

Over the past several years, the Government has approached the financial markets frequently to raise the cash it needs. Because of the importance of the prospectus document to the potential investor, we spend considerable effort fulfilling our professional responsibilities in satisfying ourselves of the reasonableness of the information included in the various prospectus documents.

Reporting Procedures

Reporting on Financial Statements

We issue attest audit opinion reports on the fairness of the presentation of information in the financial statements of the Government of the Province of Manitoba, of the Crown agencies listed in Exhibit 4 and of the departmental funds listed in Exhibit 5. We provide an attest audit opinion report on the Government's Consolidated Fund financial statements and on the Government's Summary financial statements.

Attest Audit Opinion Reports

Standard attest audit opinion reports generally include only three standard paragraphs. The first is an introductory paragraph. The second paragraph covers the scope of the audit. The third paragraph expresses an opinion on the financial statements. We provide further details concerning these three standard paragraphs.

The introductory paragraph of the report identifies which financial statements have been

audited. It also distinguishes between the responsibilities of management and the responsibilities of the auditor.

The purpose of the scope paragraph is to inform the reader that the audit was planned and performed in accordance with professional standards, and the auditor has made judgements in applying these standards. The auditor seeks to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. It also includes assessing the accounting principals used and significant estimates made by management. Further, it includes evaluating the overall financial statement presentation.

We seek reasonable assurance that information provided in the financial statements, taken as a whole, is fairly presented. We undertake audit procedures designed to assess the fairness of the financial statement representations. Absolute audit assurance regarding the fairness in presentation is not possible. Accordingly, the evidence accumulated during an audit does not guarantee absolute precision. In the audit of any large organization it is neither feasible nor economically desirable to examine every financial transaction. Instead, a sampling of transactions is carried out by the auditor in a manner designed to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader.

When determining the nature and extent of work required to provide such assurance, the auditor considers two important factors: materiality and overall audit assurance. Materiality is an amount expressed in dollars. The auditor is required to determine materiality based on his or her perception of the needs of users. If the total of all errors or misstatements in the financial statements were to exceed the materiality amount, this could affect or change decisions of persons relying on the financial statements. Overall audit assurance is the assurance an auditor obtains from the audit procedures that the total errors or misstatements in the financial statements will not be greater than materiality.

In planning our audits of financial statements, we exercise professional judgement in determining these two key factors. These factors to a large degree, establish the nature, extent and timing of the audit work to be undertaken.

For our audit of the 1991 Consolidated Fund financial statements and the Summary financial statements our materiality limit was $20 million and our overall audit assurance was 95%. This means that we were 95% confident that the total of any errors in these financial statements would be less than $20 million.

The third paragraph of the report expresses our opinion on the basis of the evidence obtained on the management representations included in the financial statements. We exercise judgement in forming our opinion as to whether the information contained in the financial statements "present fairly" the financial position of the Government, its agencies or departmental funds and the results of operations and changes that have occurred during the fiscal year. We also exercise professional judgement about the

appropriateness of the accounting principles adopted during the development of the financial statements. Further, we exercise professional judgement about the adequacy of the presentation adopted within the financial statements. Consistency with the disclosed basis of accounting is the first standard for comparison in determining our opinion for reporting on the financial statements. In regard to the Government's financial statements, we are required by legislation to report whether they present information in accordance with accounting policies of the government stated in the Public Accounts. We also evaluate the accounting policies to determine whether they are appropriate under the circumstances. For the financial statements of the Government, its agencies and departmental funds, we use recommendations developed by the Canadian Institute of Chartered Accountants as a guide to evaluate the accounting policies. If we conclude that the accounting policies are not appropriate, our report would indicate our reservation. Changes in accounting policies between fiscal years could have a significant impact upon the comparability of reported amounts. We are also required by our legislation to state whether there is consistency with the preceding year. Therefore, our audit report also indicates whether there is consistency of accounting policies in financial statements between fiscal years. This reporting aspect is embodied in the phrase "basis consistent with that of the preceding year".

Internal Reporting

During our audits, observed instances of non-compliance with legislation, weaknesses in internal control, ineffective financial and administrative management practices, records not being up-to-date and any other deficiencies or irregularities are brought to the attention of the officials concerned for appropriate action. Matters which warrant the attention of ministers and chairpersons of the boards of Crown agencies are directed to them and to the Minister of Finance in written reports. During subsequent visits, we follow up these matters to ascertain whether appropriate corrective action has been taken.

Report to the Legislative Assembly

We include significant matters in our annual Report to the Legislative Assembly. Generally, these matters have been reported to ministers and chairpersons of the boards of Crown agencies and have not been resolved within a reasonable period of time. However, we may also include in the Report significant matters which may be reported for the first time or significant matters which have been resolved. These matters are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

Section 13(5) of The Provincial Auditor's Act also provides that a special report may be made to the Legislative Assembly. In determining whether we should develop a special report, we evaluate the criticality of the issue. If we conclude that a matter is of pressing importance or urgency that requires special attention and action by the Assembly, a special report will be made.

Exhibit 3

Office of the Provincial Auditor
Organizational Chart

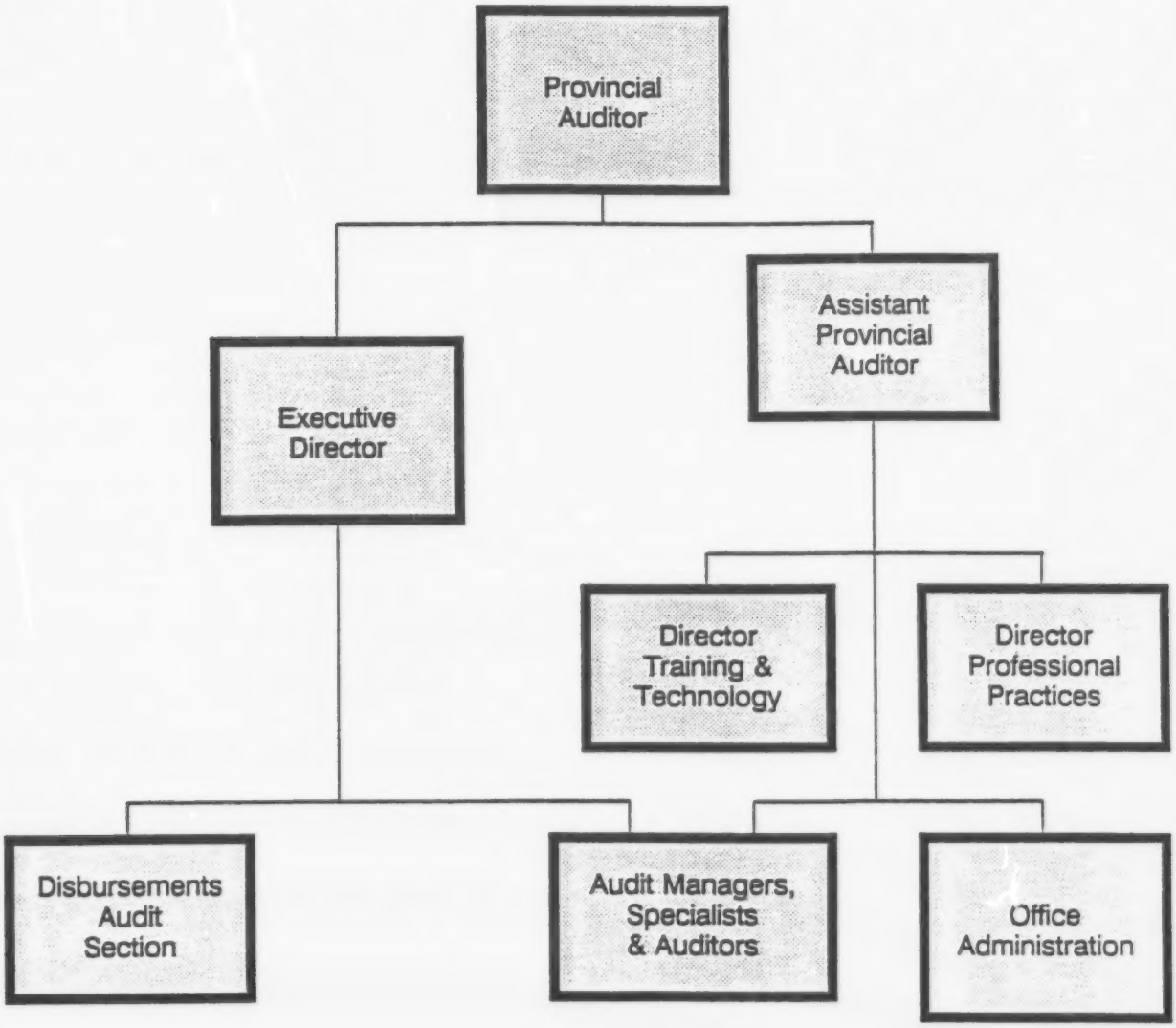


Exhibit 4

Schedule of Crown Agencies Whose Financial Statements Were Audited and Reported on by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
Alcoholism Foundation of Manitoba	March 31, 1991
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1990
Brandon University	March 31, 1991
Brandon University Holding Company	March 31, 1991
Brandon University Retirement Plan	December 31, 1990
Centre Culturel Franco-Manitobain	March 31, 1991
Channel Area Loggers Ltd.	March 31, 1991
Civil Service Superannuation Fund	December 31, 1990
Co-operative Loans and Loans Guarantee Board	March 31, 1991
Co-operative Promotion Board	March 31, 1991
Criminal Injuries Compensation Board	March 31, 1991
Habitat Heritage Corporation	March 31, 1991
Horse Racing Commission	March 31, 1991
Leaf Rapids Town Properties Ltd.	March 31, 1991
Legal Aid Services Society of Manitoba	March 31, 1991
Liquor Control Commission	March 31, 1991
Manitoba Agricultural Credit Corporation	March 31, 1991
Manitoba Arts Council	March 31,1991
Manitoba Beef Commission	March 31, 1991
Manitoba Centennial Centre Corporation	March 31, 1991
Manitoba Crop Insurance Corporation	March 31, 1991
Manitoba Hazardous Waste Management Corporation	December 31, 1990
Manitoba Health Research Council	March 31, 1991
Manitoba Health Services Commission	March 31, 1991
Manitoba Home Care Employees' Benefits Trust Fund	June 30, 1990
Manitoba Housing and Renewal Corporation	March 31, 1991
Manitoba Intercultural Council	March 31, 1991
Manitoba Lotteries Foundation	March 31, 1991
Manitoba Mental Health Research Foundation	March 31, 1991
Manitoba Milk Prices Review Commission	March 31, 1991
Manitoba Mineral Resources Ltd.	December 31, 1990
Manitoba Research Council	March 31, 1991
Manitoba Trading Corporation	March 31, 1991
Manitoba Water Services Board	March 31, 1991
Moose Lake Loggers Ltd.	March 31, 1991

Exhibit 4

Schedule of Crown Agencies Whose Financial Statements Were Audited and Reported on by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
Municipal Employee Benefits Fund	December 31, 1990
Public Schools Finance Board	June 30, 1990
Public Service Group Insurance Fund	April 30, 1990
Public Trustee of Manitoba	March 31, 1991
Teachers' Retirement Allowances Fund	December 31, 1990
Universities Grants Commission	March 31, 1991
University of Manitoba	March 31, 1991
University of Manitoba Pension Plans	December 31, 1990
University of Winnipeg	March 31, 1991
University of Winnipeg Pension Plan	December 31, 1990
Venture Manitoba Tours Ltd.	March 31, 1991
Westarc Group Inc.	March 31, 1991

Exhibit 5

Schedule of Departmental Funds Whose Financial Statements Were Audited and Reported on by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
Fiscal Stabilization Fund	March 31, 1991
Manitoba Hospital Capital Financing Authority	March 31, 1991
Manitoba Text Book Bureau	March 31, 1991
Northern Affairs Fund	March 31, 1991
Office of the Queen's Printer	March 31, 1991

Schedule of Crown Agencies Whose Financial Statements Were Audited by Private-Sector Audit Firms With an Overview Audit by The Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1990
Communities Economic Development Fund	March 31, 1991
Credit Union Stabilization Fund	December 31, 1990
Crown Corporations Council	December 31, 1990
Fonds de Sécurité des Caisses Populaires	December 31, 1990
Manitoba Boxing and Wrestling Commission	March 31, 1991
Manitoba Development Corporation	March 31, 1991
Manitoba Energy Authority	March 31, 1991
Manitoba Hydro-Electric Board	March 31, 1991
Manitoba Properties Inc.	January 31, 1991
Manitoba Properties Leasing Inc.	December 31, 1990
Manitoba Properties Management Inc.	December 31, 1990
Manitoba Public Insurance Corporation	October 31, 1990
Manitoba Telephone System	December 31, 1990
Workers Compensation Board	December 31, 1990

Manitoba

Finance Comptroller's Division 709 Norquay Building
Winnipeg, Manitoba, CANADA
R3C 0P8

Exhibit 7

November 29, 1991

Honourable Clayton Manness
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of the Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My division now performs this audit on a regular basis. Under my direction, an auditor from Financial and Management Systems Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1991.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

E. Rosenhek, C.A.

E. Rosenhek
Comptroller

cc: F.H. Jackson

Office of
the Provincial Auditor

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

AUDITOR'S REPORT

To The Legislative Assembly of Manitoba

Under the authority of section 14 of the Provincial Auditor's Act, we have examined the Operating Fund statements of financial position and excess of liabilities over financial assets of the Consolidated Fund of the Government of the Province of Manitoba as at March 31, 1991 and the Operating Fund statements of revenue and expenditure, changes in financial position, and those Operating statements provided under statutory requirement for the year then ended. We have also examined the Trust Fund statements of assets and liabilities, cash and investments and balances of the Consolidated Fund of the Government of the Province of Manitoba as at March 31, 1991. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, except for the matter presented as reservation 1 regarding amounts receivable, these financial statements present information in accordance with the accounting policies of the Government of the Province of Manitoba stated in notes 1 to the Operating Fund and the Trust Fund financial statements of the Consolidated Fund applied on a basis consistent with that of the preceding year. We also report three additional reservations regarding the Government's accounting treatment of pension liabilities and associated pension costs, transactions with the Fiscal Stabilization Fund and operating funds held in an account classified as a trust account. In our opinion, except for the effects of these four reservations as set out below, these financial statements present fairly, in all material respects, the financial position of the Consolidated Fund of the Government of the Province of Manitoba as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended.

Reservation 1 - Recording of a Pending Amount Receivable from the Government of Canada

Recorded in the Operating Fund financial statements is $18.7 million as emergency disaster amounts receivable from the Government of Canada regarding a pending claim for fire suppression costs which was set up as at March 31, 1990. The Governments of the Province of Manitoba and Canada are in the process of negotiating a cost sharing arrangement to cover these costs. As at March 31, 1991, the Province had not submitted a formal claim to Canada and Canada had not acknowledged this liability. As a result, realization of this amount receivable depends on future negotiations. As at March 31, 1991, the classification of the $18.7 million as an amount receivable cannot be verified. Had the Government not recorded the $18.7 million as an amount receivable in its financial statements, the financial assets would be decreased and the total excess of liabilities over financial assets and similar items (accumulated deficit) would be increased by $18.7 million as at March 31, 1991.

Reservation 2 - Failure to Record Pension Liabilities and Associated Pension Costs

In accordance with the accounting policy stated in note 1B2d to the Operating Fund financial statements, the Government does not record its pension liabilities and the costs associated with the annual increase in the pension liabilities for pension entitlements earned by its employees, teachers and Members of the Legislative

Assembly in its financial statements. Note 13 provides information on the Government's estimated unfunded pension liabilities. The unfunded pension liabilities are estimated to be $1,257 million as at March 31, 1991. Had the Government recorded the unfunded pension liabilities and the costs associated with the annual increase in the pension liabilities in its financial statements, expenditure and the annual deficit would be increased by an estimated $127 million for the year ended March 31, 1991. Also, liabilities and the accumulated deficit would be increased by an estimated $1,257 million as at March 31, 1991.

Reservation 3 - Transactions with the Fiscal Stabilization Fund

In accordance with the accounting policy stated in note 1A to the Operating Fund financial statements, the Government records in the Operating Fund the operational activities of the Government and reports amounts recorded as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt.

The Fiscal Stabilization Fund includes net operating revenues that have been transferred from the Operating Fund. Segregation of the Fiscal Stabilization Fund from the Operating Fund results in the incomplete presentation of the Operating Fund financial statements.

For the year ended March 31, 1990, we reported our concern with the accumulated transfer of $225 million of Operating Fund revenues to the Fiscal Stabilization Fund. For the year ended March 31, 1991, the Fiscal Stabilization Fund recorded $31.6 million of interest earned on funds previously transferred and $17.7 million of revenue transferred from the Consolidated Fund related to the sale of Manitoba Data Services. In addition, as at March 31, 1991, the Government transferred $85 million of revenue from the Fiscal Stabilization Fund to the Operating Fund. Had the Government not separated these transactions from the Operating Fund, revenue would be decreased by $67.3 million, expenditure would be decreased by $31.6 million and the annual deficit would be increased by $35.7 million for the year ended March 31, 1991. Also, liabilities and the accumulated deficit would be decreased by $189.3 million as at March 31, 1991.

Reservation 4 - Operating Funds Held in an Account Classified as a Trust Account

The Government classifies certain operating funds as trust funds. The Manitoba Lotteries Fund does not meet the criteria of a trust fund, because a fiduciary trust relationship does not exist. Segregation of this fund from the Operating Fund results in the incomplete presentation of the Operating Fund financial statements.

For the year ended March 31, 1991, receipts of $10.5 million were not recorded as Operating Fund revenue and $54.2 million remains unexpended in the Manitoba Lotteries Fund balance as at March 31, 1991. Had the Government recorded this fund in its Operating Fund financial statements, revenue would be increased by $10.5 million and the annual deficit would be decreased by $10.5 million for the year ended March 31, 1991. Also, liabilities and the accumulated deficit would be decreased by $54.2 million as at March 31, 1991.

The combined effect of the four reservations on the Government's 1991 operations is a decrease in revenue of $56.8 million, an increase in expenditure of $95.4 million and an increase in the annual deficit of $152.2 million for the year ended March 31, 1991. Also, financial assets would be decreased by $18.7 million, liabilities would be increased by $1,013.5 million and the accumulated deficit would be increased by $1,032.2 million as at March 31, 1991.

F.H. Jackson, CA
Provincial Auditor

Winnipeg, Manitoba
October 18, 1991

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF RESPONSIBILITY

Responsibility for the integrity and objectivity of the Operating Fund and Trust Fund financial statements rests with the Government. They are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government and include a statement of financial position, a statement of excess of liabilities over financial assets, a statement of revenue and expenditure, a statement of changes in financial position, schedules and notes integral to the statements. Together, they present fairly, in all material respects the financial condition of the Consolidated Fund at the fiscal period-end and results of operations for the year then ended.

More detailed information regarding the Government's financial position and operating results can be found in other sections of this Volume and in Volume 2 of the Public Accounts. In addition, explanatory comments with respect to variances from planned revenue and expenditure, as well as increases from the prior year, are provided in each Government department's annual report.

On behalf of the Government

HONOURABLE CLAYTON MANNESS
Minister of Finance
November, 1991

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF FINANCIAL POSITION

As at March 31, 1991
(with comparative figures for March 31, 1990)

($ millions)

SCHEDULE NO.		1991	1990
	FINANCIAL ASSETS		
	Cash and Equivalents	$ 1,140	$ 555
1.	Amounts Receivable	266	251
2.	Loans and Advances	4,571	4,101
3.	Long-Term Investments	43	43
	Valuation Allowance (Note 2)	(73)	(68)
	Total Financial Assets	$ 5,947	$ 4,882
	LIABILITIES		
	Amount owing to the Trust Fund	$ 1,204	$ 1,044
4.	Accounts Payable, Accrued Charges, and Deferred Revenue	465	446
	Provision for Foreign Currency Fluctuation on Manitoba Hydro Debt (Note 3)	249	266
5.	Borrowings (Note 4)	9,042	7,880
	Unamortized Foreign Currency Fluctuation (Note 5)	14	(12)
	Total Liabilities	$ 10,974	$ 9,624
	EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE		
	Serial Debentures of School Divisions and Districts (Note 6)	$ 103	$ 118
	Securities Received From the Sale of Land and Buildings (Note 7)	213	205
	Excess of Liabilities Over Financial Assets	4,711	4,419
	Total Excess of Liabilities Over Financial Assets and Similar Items	$ 5,027	$ 4,742

Information concerning the Government's Guaranteed and Indirect Liabilities, Financial Commitments, Contingent and Pension Liabilities can be found in Notes 9, 11, 12 and 13.

Trust Fund Assets/Liabilities at March 31, 1991 were $2,820 million (1990 - $2,538 million). Further details are displayed in Note 8.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF EXCESS OF LIABILITIES OVER FINANCIAL ASSETS

As at March 31, 1991
(with comparative figures for March 31, 1990)

	($ millions) 1991	1990
BALANCE, BEGINNING OF YEAR	$ 4,419	$ 4,273
Repurchase of Land and Buildings from Manitoba Properties Inc.	-	4
Deficit for the Year	292	142
BALANCE, END OF YEAR	$ 4,711	$ 4,419

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1991
(with comparative figures for the year ended March 31, 1990)

($ millions)

	1991 Budget Estimate	1991 Actual	1990 Actual
REVENUE			
Manitoba Collections:			
Retail Sales Tax	$ 630	$ 606	$ 622
Fuel Taxes	189	187	191
Liquor Commission	140	136	146
Levy for Health and Education	180	187	191
Other Taxes	341	348	413
Fees and Other Revenue	305	292	254
Income Taxes:			
Corporation Income Tax	173	78	152
Individual Income Tax	1,128	1,149	1,031
Federal Transfers:			
Equalization	896	970	910
Health and Higher Education Cash Transfer	427	406	431
Shared Cost and Other	306	319	317
TOTAL REVENUE BEFORE TRANSFER FROM FISCAL STABILIZATION FUND	$ 4,715	$ 4,678	$ 4,658
Transfer from Fiscal Stabilization Fund (Note 14)	83	67	-
TOTAL REVENUE	$ 4,798	$ 4,745	$ 4,658
EXPENDITURE			
Health	$ 1,671	$ 1,645	$ 1,524
Education and Training	935	936	898
Family Services	535	536	487
Economic and Resource Development	608	580	586
Assistance to Local Governments and Taxpayers	388	385	379
Justice, Administration and Other Government Services	528	518	501
Public Debt	476	437	425
	$ 5,141	$ 5,037	$ 4,800
Less: Year End Lapse	60	-	-
TOTAL EXPENDITURE	$ 5,081	$ 5,037	$ 4,800
DEFICIT FOR THE YEAR	$ 283	$ 292	$ 142

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended March 31, 1991
(with comparative figures for the year ended March 31, 1990)

($ millions)

	1991 Budget Estimate	1991 Actual	1990 Actual
Beginning Cash and Equivalents		$ 555	$ 1,368
Operating Transactions:			
Deficit for the Year	$ (283)	$ (292)	$ (142)
Non Cash Items Included in the Deficit:			
Increase in Amounts Receivable	-	(15)	(72)
Write-Off/Down of Loans, Advances, and Long Term Investments	-	2	-
Increase in Valuation Allowance Charged to Expenditure	-	9	12
Energy Rate Stabilization Act-Settlement (NOTE 3)	-	(13)	-
Increase in Accounts Payable, Accrued Charges, and Deferred Revenue	-	19	86
Amortization of Foreign Currency Fluctuation	15	10	12
Amortization of Debt Discount	10	9	9
Cash and Equivalents Required for Operations	$ (258)	$ (271)	$ (95)
Investing Transactions (Note 16):			
Acquired/Made	$ (1,153)	$ (984)	$ (323)
Redeemed/Realized	413	519	370
Cash and Equivalents Required for Investing	$ (740)	$ (465)	$ 47
Financing Transactions (Note 16):			
Debt Issued: Foreign	$ N.E.	$ 1,199	$ 888
Domestic	N.E.	1,009	135
	$ 2,211	$ 2,208	$ 1,023
Debt Redeemed: Foreign	$ (139)	$ (343)	$ (828)
Domestic	(551)	(377)	(428)
Payment to(from) Provision for Foreign Currency Losses	(3)	(3)	(6)
Increase in Sinking Funds	(218)	(324)	(408)
	1,300	1,161	(647)
Change in Trust Fund	-	160	(118)
Cash and Equivalents Obtained From Financing	$ 1,300	$ 1,321	$ (765)
Change in Cash and Equivalents During Period	$ 302	$ 585	$ (813)
Ending Cash and Equivalents		$ 1,140	$ 555

N.E. Not Estimated

GOVERNMENT OF THE PROVINCE OF MANITOBA

AMOUNTS RECEIVABLE

SCHEDULE 1

As at March 31, 1991
(with comparative figures for March 31, 1990)

	($ millions) 1991	1990
Tax Revenue:		
Retail Sales Tax	$ 42	$ 51
Motive Fuel Tax	2	6
Gasoline Tax	9	10
Tobacco Tax	6	4
Revenue Act, 1964	5	5
	$ 64	$ 76
Interest Income:		
Province of Manitoba Sinking Fund	$ 48	$ 39
Other Investments	27	22
	$ 75	$ 61
Government of Canada and Other Governments:		
Shared Cost Programs	$ 127	$ 112
Other Income:		
City of Winnipeg	$ -	$ 2
	$ 266	$ 251

GOVERNMENT OF THE PROVINCE OF MANITOBA

LOANS AND ADVANCES — SCHEDULE 2

As at March 31, 1991
(with comparative figures for March 31, 1990)

($ millions)

	Crown Corporations, Agencies, Boards and Commissions	Other Governments	Other	1991 Total	1990 Total
Due 1 Year or Less	$ 538	$ 1	$ 62	$ 601	$ 655
Due Over 1 Year	4,137	6	30	4,173	3,632
Total	$ 4,675	$ 7	$ 92	$ 4,774	$ 4,287
Less: Sinking Funds	202	-	1	203	186
	$ 4,473	$ 7	$ 91	$ 4,571	$ 4,101
Less: Valuation Allowance	47	-	5	52	48
Net	$ 4,426	$ 7	$ 86	$ 4,519	$ 4,053

GOVERNMENT OF THE PROVINCE OF MANITOBA

LONG-TERM INVESTMENTS — SCHEDULE 3

As at March 31, 1991
(with comparative figures for March 31, 1990)

($ millions)

	Crown Corporations	Other	1991 Total	1990 Total
Shares:				
Common	$ 22	$ 5	$ 27	$ 27
Preferred	2	-	2	2
Debentures	3	-	3	3
Profit Sharing Agreement	-	11	11	11
	$ 27	$ 16	$ 43	$ 43
Less: Valuation Allowance	7	14	21	20
Net	$ 20	$ 2	$ 22	$ 23

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTS PAYABLE, ACCRUED CHARGES AND DEFERRED REVENUE

SCHEDULE 4

As at March 31, 1991
(with comparative figures for March 31, 1990)

	($ millions) 1991	1990
Accounts Payable	$ 165	$ 193
Accrued Charges		
Interest Accrued on Provincial Borrowings and Trust Funds	223	181
Other Accrued Liabilities (Note 10):		
Communities Economic Development Fund	1	1
Criminal Injuries Compensation Board	21	20
Land Acquisition Claims	2	-
Manfor Ltd. Divestiture	10	10
Manitoba Crop Insurance Corporation	1	-
Manitoba Lotteries Holdbacks	2	-
Manitoba Milk Producers Marketing Board	1	2
Manitoba Public Insurance Corporation	32	32
Other	2	1
Deferred Revenue	5	6
	$ 465	$ 446

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE OF LIABILITIES FOR BORROWINGS

SCHEDULE 5

As at March 31, 1991
(with comparative figures for March 31, 1990)

($ millions)

Fiscal Year of Maturity	Bonds and Debentures Cdn$	Bonds and Debentures US$	Bonds and Debentures Other	Canada Pension Plan Cdn$	Govt of Canada Cdn$	Treasury Bills Cdn$	Totals 1991	Totals 1990
1991	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 1,337
1992	134	200	176	54	5	650	1,219	565
1993	996	237	–	57	5	–	1,295	1,295
1994	41	557	8	64	5	–	675	689
1995	380	313	–	74	5	–	772	778
1996	336	131	–	83	5	–	555	532
1991-1996	$ 1,887	$ 1,438	$ 184	$ 332	$ 25	$ 650	$ 4,516	$ 5,196
1997-2001	$ 1,708	$ 2,130	$ –	$ 495	$ 30	$ –	$ 4,363	$ 3,067
2002-2011	–	–	–	1,204	74	–	1,278	1,266
2012-2031	300	985	–	–	14	–	1,299	499
1997-2031	$ 2,008	$ 3,115	$ –	$ 1,699	$ 118	$ –	$ 6,940	$ 4,832
Total Borrowings	$ 3,895	$ 4,553	$ 184	$ 2,031	$ 143	$ 650	$ 11,456	$ 10,028
Reduced by:								
Unamortized Debt Issue Costs	$ 24	$ 22	$ –	$ –	$ –	$ –	$ 46	$ 39
Debt of the Province of Manitoba held as Provincial Investments	–	–	–	–	–	134	134	199
Sinking Funds Provided	1,042	488	7	677	20	–	2,234	1,910
	$ 2,829	$ 4,043	$ 177	$ 1,354	$ 123	$ 516	$ 9,042	$ 7,880

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXPENDITURE BY OBJECT — SCHEDULE 6

For the Year Ended March 31, 1991
(with comparative figures for the year ended March 31, 1990)

($ millions)

	1991	1990
Personnel Services	$ 693	$ 668
Grants/Transfer Payments	2,865	2,688
Transportation	19	38
Communications	26	25
Supplies and Services	273	276
Social Assistance Related	377	343
Other Operating	39	39
Public Debt	437	425
	$ 4,729	$ 4,502
Capital	308	298
	$ 5,037	$ 4,800

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXPENDITURE CATEGORY DETAIL — SCHEDULE 7

For the Year Ended March 31, 1991
(with comparative figures for the year ended March 31, 1990)

($ millions)

	1991 Budget Estimate	1991 Actual	1990 Actual
Health	$ 1,671	$ 1,645	$ 1,524
Education and Training	$ 935	$ 936	$ 898
Family Services	$ 535	$ 536	$ 487
Economic and Resource Development:			
Agriculture	$ 112	$ 96	$ 67
Energy and Mines	15	14	13
Environment	13	13	12
Environmental Innovations Fund	1	1	-
Highways and Transportation	235	236	230
Housing	51	52	54
Industry, Trade and Tourism	39	36	35
Natural Resources	110	108	150
Northern Affairs	20	20	20
Allowance for Losses and Expenditures Incurred by Crown Corporations and Other Provincial Entities	6	4	5
Canada-Manitoba Enabling Vote	6	-	-
	$ 608	$ 580	$ 586
Assistance to Local Governments and Taxpayers:			
Rural Development	$ 64	$ 61	$ 56
Urban Affairs	73	77	75
Tax Credit Programs	251	247	248
	$ 388	$ 385	$ 379
Justice, Administration and Other Government Services:			
Legislation	$ 21	$ 19	$ 13
Executive Council	4	3	3
Civil Service	76	74	68
Community Support Programs	4	5	3
Cooperative, Consumer and Corporate Affairs	9	9	8
Culture, Heritage and Citizenship	56	56	53
Finance - Departmental Programs	23	22	22
Fitness and Sport	13	13	13
Government Services	144	141	139
Justice	152	155	146
Labour	16	17	17
Status of Women	1	1	1
Decentralization	1	-	-
Flood Control and Emergency Expenditures	3	3	15
General Salary Increases	5	-	-
	$ 528	$ 518	$ 501
Public Debt	$ 476	$ 437	$ 425
	$ 5,141	$ 5,037	$ 4,800

GOVERNMENT OF THE PROVINCE OF MANITOBA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1991

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic accounting policies followed by the Government of the Province of Manitoba, which have been applied in the preparation of the Operating Fund Financial Statements are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba.

A. THE REPORTING ENTITY

The financial transactions of the Government are recorded in the "Consolidated Fund". The activities of the Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts recorded as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Separate financial statements are prepared for the "Trust Fund" which report the activities in the various categories of trust money administered by the Government.

The financial operations of provincial Crown corporations, agencies, boards and commissions are not consolidated in these financial statements and are reflected in the Operating Fund financial statements only to the extent that:

1. they receive money from or pay money to the Government, or

2. any non-recoverable deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government, or

3. where the Government has no loans, advances or investments involved, any losses they incur, which are assumed by the Government, are recorded as accrued charges.

B. BASIS OF ACCOUNTING FOR REVENUE AND EXPENDITURE

1. **GROSS ACCOUNTING CONCEPT**

Revenues and expenditures are recorded in gross amounts with the following exceptions:

a) The municipal share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act, is not recorded as revenue or expenditure by the Government.
b) Refunds of revenue are treated as reductions of current year revenue.
c) Decreases in valuation allowances previously provided are treated as reductions to expenditure.
d) Recoveries from Crown corporations and government agencies of the debt servicing costs on self-supporting debt are recorded as a reduction of Public Debt expenditure. The same treatment is also given to income earned on investments and advances.
e) Transfers to and from the Fiscal Stabilization Fund, under the provisions of the Fiscal Stabilization Fund Act, are applied directly against revenue.

2. **MODIFIED ACCRUAL ACCOUNTING**

The revenues and expenditures of the Government are recorded on an accrual basis with exceptions noted as follows:

a) INCOME FROM CANADA-MANITOBA FISCAL ARRANGEMENTS - This income is recorded on a cash basis with three exceptions:
   i) revenues received in advance of when they are earned are deferred to the appropriate fiscal year;

ii) money received in advance, relating to projects for which expenditures are to be made in more than one fiscal year, is deemed to be revenue in each fiscal year in proportion to the related expenditure made in the respective fiscal year; and

iii) the accounts are kept open until June 30 to reflect any adjustments regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements.

b) FEES AND OTHER REVENUE - Collections are recorded on a cash basis except for amounts received in April from Agents for provincially collected taxes pertaining to the year just ended which are recorded as revenue receivable.

c) SALARIES AND WAGES - Salaries and wages are recorded as expenditures in the year in which they are paid. No liability or expenditure is recorded for salaries earned but not paid at year end, or for salary related benefits such as vacation earnings.

d) PENSION - The annual cost recorded by the Government is its share of pensions paid to retired employees, teachers and Members of the Legislative Assembly.

The Government does not record its liability for the annual cost of pension benefits earned by employees, teachers and Members of the Legislative Assembly.

e) GOODS AND SERVICES - A period of forty-five days after the end of the fiscal year is allowed for the payment of operating expenditures incurred during that fiscal year. Payments in this period are reflected as accounts payable for the fiscal year just ended. Supplier accounts not paid within this period are treated as expenditures of the following year.

However, recording of expenditures is allowed after the forty-five day period if required to show the accurate financial condition of the Government, pursuant to authority provided under Section 8 of the Financial Administration Act. In this regard, any entries made after June 30 must be disclosed in the Public Accounts.

f) CAPITAL ASSETS AND INVENTORIES - Expenditures for the acquisition and/or construction of fixed assets and the acquisition of inventories are not considered to differ from any other service to the public and accordingly are treated as expenditures on the same basis as Goods and Services.

C. BASIS OF ACCOUNTING FOR ASSETS AND LIABILITIES

1. Except for deferred revenue, the assets and liabilities reported in the financial statements are financial claims. The assets are claims by the Government on other parties and the liabilities are claims by other parties on the Government.

Deferred revenue consists of money received from taxation and shared cost agreements which relate to future years, as well as unamortized fees from debt transactions to be amortized over the remaining life of the debt. This deferred revenue will be recorded in the appropriate year.

2. Capital assets and inventories do not represent financial claims on others. Therefore they are not reported as assets at fiscal year-end.

3. Loans, advances and long-term investments held by the Government are subject to annual valuation.

The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The major agencies to which this applies are the Manitoba Housing and Renewal Corporation, for most of the principal and interest funding, and The Manitoba Agricultural Credit Corporation, for partial interest funding.

A valuation allowance is provided to reflect decreases in the value of loans, advances and long-term investments and is adjusted annually for changes that have occurred in the estimated realizable value of these assets. Increases in the valuation allowance are recorded as expenditures, and conversely decreases in the valuation allowance are treated as a reduction of expenditures.

Loans, advances or long-term investments may be written-down in the accounts of the Government, pursuant to authority provided under the Financial Administration Act. The write-down is applied to the valuation allowance, whether it occurs in the year the valuation allowance is provided or in a subsequent year. Where an investment has been partially written-down to reflect a permanent decline in its realizable value, it is carried at its decreased value. Otherwise, it is recorded at cost.

4. Investments included in Cash and Equivalents and the Province of Manitoba Sinking Fund are recorded at cost adjusted for amortization of investment premium or discount. Any premium or discount incurred at the time of purchase is amortized annually to public debt expense over the life of the investment. The investments included in the remaining Sinking Funds are shown at cost and do not reflect any amortization of investment premium or discount.

   Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward exchange contract fixing the value has been negotiated, in which case that rate or amount is used.

   Expenses and other transaction charges incurred on the purchase of investments during the year are charged to public debt expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

   The year end investment translation adjustments reflecting the foreign exchange fluctuation are amortized annually to public debt expense over the life of the investment.

5. Borrowings, comprised of bonds, debentures and other long-term debt issued and payable in Canadian currency, are recorded at the par value of the issue. Discounts or premiums, as well as commissions incurred at the time of the issue of the debt, are amortized annually to public debt expense over the life of the debt. The unamortized portion is deducted from the par value of the debt.

   Fees received at the time of arranging debt transactions, in respect of options or warrants, are reflected as deferred revenue and amortized annually as a credit to public debt expense over the life of the debt. The unamortized portion is included in deferred revenue.

   Expenses and other transaction charges, such as legal fees, printing and registration, incurred during the year on the issue of debt are charged to public debt expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

   Borrowings issued and payable in foreign currencies are recorded at the Canadian dollar equivalent of the par value based on the exchange rate in effect at March 31, unless the rate of exchange or a fixed amount has been negotiated through a currency exchange agreement or other arrangement, in which case that rate or amount is used.

   The year end translation adjustments reflecting the foreign exchange fluctuation from the value at the issue date are recorded through the Unamortized Foreign Currency Fluctuation account, and amortized annually to public debt expense over the life of the debt issue.

Where an issue of debt in a foreign currency is called for redemption prior to maturity and refinanced with another issue of debt, the Canadian dollar equivalent cost of the original debt is translated at the exchange rate in effect at the date of redemption. The resulting unrecognized foreign currency fluctuation is recorded through the Unamortized Foreign Currency Fluctuation account and is amortized to public debt expense over the term of the first replacement issue or the remaining term of the original issue, whichever is less. However, if the remaining term of the original issue is one year or less, the fluctuation is fully expensed in the year of redemption.

On maturity, any unrecognized foreign exchange gain/loss, being the difference between the recorded par value in Canadian currency and the required payment, is reflected in public debt expense.

Proceeds of debt which are raised for the purpose of retiring a specific debt issue at a later date and which are invested for a short term are valued in accordance with the accounting policy on Borrowings. Holdings of unmatured provincial debt issues purchased on the market for cancellation are valued in accordance with the policy on investments. Both these investment categories are reflected as reductions to Borrowings.

Sinking funds are maintained in accordance with legal requirements of the debt instruments and the Financial Administration Act, and are reflected as a reduction of Borrowings.

D. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government acts as a guarantor of securities issued by various other entities. The debt issued by Crown corporations, agencies, boards and commissions and guaranteed by the Government is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund.

Legislation requires the maintenance of sinking funds for the retirement of the debt of most Crown corporations, agencies, boards and commissions. These sinking funds are held in Trust by the Minister of Finance. The Crown corporation, agency, board or commission to whom the debt applies, make annual contributions to the sinking fund.

Contingent liabilities that result from other financial activities of the Government are reported in the notes to the financial statements.

2. VALUATION ALLOWANCE

The valuation allowance is determined as follows:

A. CROWN CORPORATIONS, AGENCIES, BOARDS AND COMMISSIONS - LOANS, ADVANCES AND LONG-TERM INVESTMENTS

1. OPERATING DEFICITS

The valuation allowance is based on the financial results applicable to the most recent fiscal year completed prior to April 1. Where an assessment of the accumulated deficit indicates a prospect for recovery from future operations, the amount of the valuation allowance is adjusted accordingly.

2. NON-RECOVERY OF CAPITAL INVESTMENT

A valuation allowance may be provided where there is reasonable evidence that the Province's investment will not be realized.

3. MANITOBA PROPERTIES INC.

Beginning in 1988-89 but not retroactive, the annual valuation allowances in relation to advances to Manitoba Properties Inc. include provision for advances made in relation to capital expenditure as well as operating deficits.

If the Goverament has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the valuation allowance is assigned against the investments in order of priority on liquidation.

B. OTHER LONG-TERM INVESTMENTS

The valuation allowance is used to record losses, that are other than temporary declines, in the value of the Government's investments in other than Crown corporations, agencies, boards and commissions. The valuation allowance is based on an annual valuation of the investment.

C. OTHER LOANS AND ADVANCES

The valuation allowance is used to provide for the estimated amounts not recoverable under a Government loan or support program. The valuation allowance for doubtful accounts that has been established for that loan or support program is recorded by means of a valuation allowance placed against the loan or advance used to fund the program. Increases to the valuation allowance are recorded as an expenditure regardless of the timing of the write-off of the uncollectible accounts, such write-off being applied directly to the valuation allowance.

The March 31, 1991 valuation allowance balance of $73 million (1990-$68 million) is after having given effect to the write-down of some loans, advances and long-term investments where it has been determined that the realizable value has been permanently impaired:

	($ millions) 1991	1990
Manitoba Agricultural Credit Corporation	$ 4	$ 9
Manitoba Beef Stabilization Fund	-	17
Manitoba Housing and Renewal Corporation	-	4
Manitoba Development Corporation	-	1
Venture Capital Program	-	1
Other	1	-
	$ 5	$ 32

3. PROVISION FOR FOREIGN CURRENCY FLUCTUATION ON MANITOBA HYDRO DEBT

The Province issues provincial securities to raise funds for Manitoba Hydro. In addition, the Province guarantees debt which Manitoba Hydro issues in its own name. Until March 31, 1987, pursuant to the Energy Rate Stabilization Act, the Province was responsible for the currency fluctuation on all foreign debt issued for Manitoba Hydro purposes.

The Energy Rate Stabilization Act was amended effective April 1, 1987 making Manitoba Hydro responsible for the fluctuation on all of its foreign currency debt issued on or after that date. Manitoba Hydro was also made responsible for the fluctuation on its U.S. dollar denominated debt issued prior to April 1, 1987, except to the extent already provided by the Province to March 31, 1987.

Effective April 1, 1989 the Act was further amended to transfer responsibility to Manitoba Hydro for the remaining foreign currency risk associated with the debt issued prior to April 1, 1987. At March 31, 1989, using the foreign exchange rates in effect on that date, the Province adjusted its provision account to cover the total fluctuation in the value of this foreign debt.

In May, 1990 the Province and Manitoba Hydro entered into an agreement which provides that the settlement amount in respect of each United States dollar denomination debt issue governed by The Energy Rate Stabilization Act be calculated using a currency exchange rate of $1.21. The Province's liability in relation to foreign exchange fluctuations on these debt issues, as a result of the agreement, is fixed at $183 million at March 31, 1991.

At maturity of other foreign debt issues for Manitoba Hydro purposes, the Province is responsible for the lesser of the currency fluctuation on the maturing debt or the amount remaining in the provision account for that particular issue.

The provision account balance of $249 million at March 31, 1991 (1990-$266 million) represents the limit of the Province's liability for foreign exchange fluctuation on both U.S. dollar denominated debt and other foreign debt for Manitoba Hydro purposes.

4. BORROWINGS

All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any foreign currency contract entered into for settlement after the fiscal year-end.

The weighted average rate of interest based on actual interest payments made during 1990-91 was 10.21% (1989-90 10.6%).

Money is allocated annually to the Province of Manitoba sinking funds on the following basis:

A. a sum equal to 3% of the aggregate amount of debt related to general government programs, in Canadian Dollars converted at the date of issue, outstanding at the end of the preceding fiscal year; and
B. all earnings derived from investing the sinking fund.

The Manitoba Hydro-Electric Board and the Manitoba Telephone System make annual contributions to their respective sinking funds for the orderly retirement of their debt based on 1% of debt and Provincial advances outstanding at the preceding fiscal year end plus 4% of the sinking fund balance.

In addition, all principal repayments of advances by other agencies are allocated to the sinking fund and will be utilized to retire other agencies' debt as such debt matures.

5. UNAMORTIZED FOREIGN CURRENCY FLUCTUATION

This balance represents the unamortized portion of unrealized foreign currency gains or losses on the conversion of the assets and liabilities of the Government to Canadian dollars at March 31. It also includes the unamortized portion of realized foreign currency gains or losses on the conversion of the foreign currency debt called prior to maturity using the rates in effect at the time of the call.

6. SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY

The School Capital Financing Authority Act was repealed April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, were assumed by the Government. The investments transferred to the Government consist of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. These securities are therefore included in this category because they do not represent a claim on other parties.

The estimates of expenditure provide an annual appropriation in the Operating Fund to cover the principal and interest costs of these debentures. The cash drawn from this appropriation for the required annual principal repayments is transferred to the Province's sinking fund where it will be used for repayment at maturity of the debt assumed from the Authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

The principal repayments related to these debentures are as follows:

	($ millions)						
due in	1992	1993	1994	1995	1996	1997-2003	Total
	$ 13	$ 12	$ 12	$ 12	$ 12	$ 42	$ 103

7. **SECURITIES RECEIVED FROM SALE OF LAND AND BUILDINGS**

During 1984-85 and 1985-86 the Government sold land and buildings with an aggregate value of $917 million to Manitoba Properties Inc. (MPI). The sale was arranged through two intermediary Crown corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc., and resulted in the Government receiving common shares of these two corporations along with promissory notes of MPI and cash as the purchase consideration.

The recorded value of the common shares has been reduced by a special valuation account which was established from a portion of the sale proceeds and is used to reflect the potential diminution in value of these shares as the result of dividends paid to preferred shareholders of Manitoba Properties Inc. on an annual basis. Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. each own 50% of the common shares of Manitoba Properties Inc. and the value of their equity in these shares could decrease annually with the payment of dividends by the latter to preferred shareholders.

Interest payable to the Province on the promissory notes is funded from annual rental payments made by the Government to Manitoba Properties Inc. and is therefore dependent on future appropriations of the Operating Fund. These securities are therefore included under this category because they do not represent a claim on other parties.

8. **TRUST FUND**

Included in the Statement of Financial Position is an amount owing to the Trust Fund which primarily represents surplus cash of Crown corporations, agencies, boards and commissions, as well as the Fiscal Stabilization Fund, on deposit with the Minister of Finance for investment but not specifically invested. Such deposits are pooled with other available funds of the Government for investment purposes and are accorded a market rate of interest. The assets and liabilities of the Trust Fund itself as at March 31st are as follows:

	($ millions)	
ASSETS	**1991**	**1990**
Amount due from Operating Fund	$1,204	$1,044
Cash and Investments	878	794
Total Trust Assets	**$2,082**	**$1,838**
LIABILITIES		
Trust Fund Balances	**$2,082**	**$1,838**
Total Trust Liabilities	**$2,082**	**$1,838**

In addition, the Trust Fund includes cash and securities for which the Government's responsibility is custodial in nature. The amount reported at March 31, 1991 was $738 million (1990-$700 million).

9. GUARANTEED AND INDIRECT LIABILITIES

Debt issued by Crown corporations, agencies, boards and commissions which is guaranteed by the Government at March 31st:

	($ millions) 1991	1990
Provincial utilities, cities and towns	$1,749	$1,733
Debt of Crown corporations whose main source of income is the Operating Fund	364	372
Debt serviced in whole or in part from the Operating Fund	10	10
	$2,123	$2,115
Less: Applicable sinking funds	304	290
	$1,819	$1,825

A portion of the foreign currency fluctuation on the guaranteed debt included above has been provided for in the Provision for Foreign Currency Fluctuation on Manitoba Hydro Debt.

10. OTHER ACCRUED LIABILITIES

The Government has accrued a liability at March 31st for losses or program expenditures in order to recognize the Province's responsibility to fund these amounts when they become payable:

	($ millions) 1991	1990
Communities Economic Development Fund	$ 1	$ 1
Criminal Injuries Compensation Board - Unfunded future costs of compensation awards	21	20
Land Acquisition Claims	2	-
Manfor Ltd. Divestiture	10	10
Manitoba Crop Insurance Corporation	1	-
Manitoba Lotteries Holdbacks	2	-
Manitoba Milk Producers Marketing Board	1	2
Manitoba Public Insurance Corporation - Reinsurance assumed losses	32	32
Other	2	1
	$ 72	$ 66

11. FINANCIAL COMMITMENTS

The Government has approved long-term financial arrangements of various entities wherein indebtedness has been issued that is not guaranteed by the Government, but the funds required for the payment of principal and interest will be either fully or partially provided from appropriations of the Operating Fund. The Government has also made future commitments against appropriations under long-term contracts that cover the acquisition and/or rental of physical assets. These financial commitments as at March 31st are as follows:

	($ millions) 1991	1990
LONG-TERM FINANCIAL ARRANGEMENTS:		
Hospitals and Personal Care Homes	$ 487	$ 462
Public Schools	306	291
Manitoba Housing and Renewal Corporation	228	229
Repap Pulp and Paper Inc. (Divestiture of Manfor Ltd.)	150	150
Brandon University	2	3
Manitoba Water Services Board	2	2

	$ 1,175	$1,137
FUTURE COMMITMENTS:		
Acquisition of physical assets	$ 186	$ 157
Rental of physical assets	58	60
	$1,419	$1,354

In addition to the approved outstanding debt for Hospitals and Personal Care Homes, lines of credit up to $168.5 million (1990-$82.6 million) have been approved to finance capital projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

12. CONTINGENCIES

The Government has provided guarantees for the following and accordingly has a contingent liability in the event of default:

	Maximum Guarantee ($ millions)	Amount Outstanding 1991 ($ millions)	1990
Mortgages	$ 1	$ 1	$ 1
Promissory notes	175	16	-
Bank loans and lines of credit	31	22	21
	$207	$39	$22

This does not include guarantees that may be provided by Crown corporations, agencies, boards and commissions under their own separate authority.

The Government has provided a guarantee to the purchaser of Flyer Industries Ltd. covering all of the obligations of Manitoba Development Corporation arising out of the sale of Flyer Industries Ltd. including $53 million of performance bonds on contracts for the supply of buses to various transit organizations.

The Government is party to an agreement with the Hudson Bay Mining and Smelting Company (HBMS) in relation to the Ruttan Mine whereby it is committed to paying all environmental clean-up costs in excess of the limit set as HBMS's share. The clean-up costs will be incurred upon closure of the Mine. The extent of this potential liability is not quantifiable at this time.

The Government has been named in approximately 335 legal actions, outstanding at March 31, 1991, which may result in future liabilities. As well, there are approximately 75 other claims outstanding in respect of damages to persons and property and like items. There are two claims in particular which are of potential significance:

Northern Flood Agreement

The Province of Manitoba is party to an agreement dated December 16, 1977 with the Government of Canada, Manitoba Hydro and the Northern Flood Committee Inc., which includes compensation and mitigation for the impact of the Churchill River Diversion and Lake Winnipeg Regulation project. Sixty-seven claims in which the Province is named as a respondent have been filed with the Arbitrator. Thirty-two have been satisfied or have interim settlements and thirty-five have yet to be determined at March 31, 1991. The Province's contingent liability is estimated to be in excess of $30 million.

Canadian National Railways (CNR)

The CNR has requested a declaration that the Retail Sales Tax Act does not apply to railway stock and repair costs, or in the alternative, if it does, that the legislation is ultra vires. CNR is requesting a refund of Sales Tax it has paid in relation to the goods and services in question.

No provision has been made at March 31, 1991 in the accounts of the Province as the outcome of these actions and

claims is uncertain.

13. **PENSION LIABILITY**

The Government is required by legislation to pay 50% of the pension disbursements made to retired Provincial employees (with the exception of the share payable by Government agencies for their employees) and to retired teachers. Such payments are charged to departmental appropriations as incurred and no provision is made to fund current or past service obligations of the Government to the Civil Service Superannuation Fund or to the Teachers' Retirement Allowances Fund. The reserves which are presently held in these Funds represent only the employees' obligation towards the total pension liability.

An actuarial valuation and report of the Government's liability to the Civil Service Superannuation Fund was determined as at December 31, 1989. The report also provided a formula to update the liability on an annual basis. In accordance with the formula adopted by the actuary, the Government's actuarial liability to the Civil Service Superannuation Fund has been calculated on a non-indexed basis at approximately $481 million at March 31, 1991 (1990-approximately $430 million). The liability of the Province to the Teachers' Retirement Allowances Fund has not been established by an actuarial valuation. The reserve which is indexed and held in the Teachers' Retirement Allowances Fund, representing the employees' obligation towards the total pension liability, amounted to $751 million as at December 31, 1990 (1989-$675 million). The Province's liability should approximate these amounts.

In addition, the Government is required to pay all of the pension disbursements made to retired Members of the Legislative Assembly (MLA's) in accordance with the Legislative Assembly Act. Members' contributions, as deducted from their remuneration, are treated as revenue of the Government. An actuarial valuation at December 31, 1986 determined the Government's liability to be $19 million. The report did not include a formula to update the liability annually and no valuation has been completed since that time.

14. **FISCAL STABILIZATION FUND**

The Fiscal Stabilization Fund was established effective March 31, 1989 under authority of the Fiscal Stabilization Fund Act. The purpose of the fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term planning. Under authority of the Act, the Minister of Finance, with the approval of the Lieutenant Governor in Council may deposit in the Fund any part of the revenue or other financial assets received in the Consolidated Fund in any fiscal year, and may transfer any part of the Fund balance to revenue of the Consolidated Fund.

If the Fiscal Stabilization Fund was consolidated in the financial statements of the Government, the net result for the Operating Fund would have been a deficit of $328 million (1990-$117 million).

15. **LEGISLATIVE AUTHORITY FOR BORROWING AND EXPENDITURE**

Order-in-Council 1138/82 authorizes the Minister of Finance to borrow money by the sale of promissory notes or by bank line of credit up to an aggregate amount not exceeding $350 million at any one time.

Limits established by legislation for borrowing funds and for expenditure from appropriations are shown below along with information regarding any non-compliance with these limits that may have occurred during the fiscal year.

	Appropriation Acts	Loan Acts
A) BORROWING	($ millions)	
Incremental Non-Lapsing Authority Provided in 1990 Acts	$ 800	$ 800
Amount Used During the Fiscal Year Ended March 31, 1991	-	-
Available for Future Years	$ 800	$ 800
Unused Borrowing Authority From Prior Years	7	223

Unused Borrowing Authority at March 31, 1991	$ 807	$1,023

B) **EXPENDITURE** (Appropriation Acts)

1) **CHANGES FROM ORIGINAL BUDGET ESTIMATE**

The budget estimate shown on the Statement of Revenue and Expenditure consists of the original estimates as contained in the budget address delivered by the Minister of Finance on October 24, 1990.

The 1990-91 expenditure estimate of $5,081 million included an estimated saving of $60 million expected from lapsing expenditure authority in various appropriations. Because the specific appropriations were not identifiable, gross appropriation expenditure authority totalling $5,141 was voted and authorized in the Main Estimates. The amount was increased during the fiscal year as follows:

	($ millions)
Main Estimates (including general statutory appropriations)	$5,141
Increased by Special Warrants	40
Adjustment of estimated amount of statutory appropriations to actual expenditure	(38)
Total authorized expenditure	$5,143

2) **NON-COMPLIANCE WITH APPROPRIATION LIMITS**

i) The following voted appropriations of the Government were placed in a net overexpended position as a result of adjustments made to reflect accounting policies on valuation allowance and Crown corporation deficits:

Energy and Mines XXIII-1 Administration and Finance	$ 78,140
Environment XXXI-2 Environmental Management	$290,306
Northern Affairs XIX-1 Administration and Finance	$348,684

ii) In addition, 9 other appropriations of the Government had late accounts paid in the 1991-92 fiscal year which were in excess of the balance remaining in the appropriations by $1.2 million at March 31, 1991. These late accounts paid subsequent to 45 days after year end are excluded from March 31, 1991 liabilities by the existing accounting policy. These late accounts result in non-compliance with appropriation limits established for the respective programs.

C) **EXPENDITURE** (Loan Acts)

The Loan Act, 1990, provided non-budgetary expenditure authority for the purposes designated in Schedule A and Schedule B of the Act. Schedule A provided $470 million of new expenditure authority while Schedule B indicated $1,190 million of unused expenditure authority from prior Loan Acts. The Act also provided for the lapsing of $8 million of previously voted expenditure authority which is no longer required.

Details of The Loan Act, 1990 expenditure authority is as follows:

	($ millions)
Incremental Authority (Schedule A)	$ 470
Unused Authority from Prior Loan Acts (Schedule B)	1,190
	$1,660
Expenditure Authority used during the fiscal year ended March 31, 1991	261

Unused Loan Act Expenditure Authority at March 31, 1991		$1,399
As at March 31, 1991, unused Loan Act Expenditure Authority was encumbered by		$ 110

Summary of Unused Loan Act Expenditure Authority at March 31, 1991:

		($ millions)
The Manitoba Hydro-Electric Board		$ 245
The Manitoba Hydro Electric Board - Limestone		614
The Manitoba Telephone System		110
The Manitoba Housing and Renewal Corporation		122
The Manitoba Hospital Capital Financing Authority		80
Business Support		43
Vision Capital Fund	$24	
Industrial Opportunities Program	17	
Manufacturing Adaptation Program	2	
Manitoba Development Corporation		37
Federal/Provincial Water and Sewer Agreement		34
The Manitoba Agricultural Credit Corporation		53
The Manitoba Water Services Board		19
The Manitoba Farm Mediation Board		10
The University of Manitoba		9
Tourism Agreement		7
Hudson Bay Mining and Smelting Co. Limited Modernization Project		6
Communities Economic Development Fund		4
Loans	$3	
Guarantees	1	
The Co-operative Loans and Loans Guarantee Board		3
Loans	$2	
Guarantees	1	
Manitoba Hazardous Waste Management Corporation		2
Venture Manitoba Tours Ltd.		1
		$1,399

In addition to the Unused Expenditure Authority shown above, pursuant to prior Loan Acts, Order-in-Council 515/89 committed the Government to $150 million of loan guarantees in future years under the terms and conditions relating to the sale of Manfor Ltd. to Repap Pulp and Paper Inc.

16. **COMPARISON TO BUDGET ESTIMATE**

For purposes of providing a meaningful comparison of changes in the financial position with the budget estimate, in addition to the budget data, other internally developed management information has also been included in the budget estimate information.

17. **EXPENDITURES RELATED TO CAPITAL**

The Government has substantial holdings of physical assets such as buildings, highways and education and health facilities, which will be used to provide services in future periods and may tend to appreciate in value over time. However, these do not represent claims on others and are therefore not reported as assets, but rather as expenditures. Such expenditures are classified as "Expenditures Related to Capital" in the Main Estimates of Expenditure. This classification is defined as follows:

A. expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year;

B. expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces or by contractors on behalf of the Government and which significantly prolong the expected economic life of the asset;

C. the principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the Consolidated Fund as an expenditure;

D. grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

18. **MANITOBA DATA SERVICES DIVESTITURE**

The sale of MDS to STM Systems Corporation in August, 1990 provided cash proceeds of $18.3 million, which after allowance for divestiture costs, resulted in deposits to revenue totalling $17.8 million. This revenue was subsequently transferred to the Fiscal Stabilization Fund by Order-in-Council 446/91 in accordance with the provisions of the Fiscal Stabilization Fund Act. In addition to the cash proceeds, the Government also received a data processing service credit note of $3.8 million to be applied over the five year period ending December 31, 1994 against the service costs of net new projects approved for utilization of MDS facilities. The credit note does not qualify as a financial asset under the accounting policies followed by the Province, consequently benefits derived from the credit note will be recognized in the fiscal year in which it is utilized.

Under the terms of the sale agreement, the Government has provided a 5 year revenue guarantee to the new owners of MDS and has received commitments from the new owners for further economic benefits including:

- construction of a new facility to house the operations of MDS;
- creation of business development fund, to explore and develop new business ventures in Manitoba;
- establishment of an equity investment fund, to provide capital and resources to promote the growth of existing high technology companies in Manitoba;
- research and development, in pursuit of new product and research development; and
- the purchase of substantial amounts of goods and services in Manitoba.

19. **ENTRIES MADE SUBSEQUENT TO JUNE 30, 1991**

Section 8(2) of the Financial Administration Act requires disclosure of entries made after June 30 respecting transactions of the preceding year. Accordingly, the following are reported:

A. Valuation Allowance

Valuation allowances are calculated as near as possible to Statement preparation time in order to ensure the most accurate provisions.

B. Accrued Liabilities

Entries to reflect the accrued liability for Family Services Social Programs in the amount of $2 million were made subsequent to June 30, 1991.

C. Transfer From Fiscal Stabilization Fund

Authorization for the transfer of $85 million from the Fiscal Stabilization Fund to General Revenue was provided by Order-in-Council 635/91 approved on July 10, 1991.

20. **COMPARATIVE FIGURES**

Certain of the 1990 financial statement figures have been restated to be consistent with the 1991 presentation.

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1991
(with comparative figures for March 31, 1990)

	1991	1990
ASSETS		
Amount Due from Operating Fund	$ 1,203,598,900	$ 1,044,062,833
Cash and Investments	878,043,235	793,835,600
	$ 2,081,642,135	$ 1,837,898,433
LIABILITIES		
Trust Fund Balances	$ 2,081,642,135	$ 1,837,898,433
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments - as listed on page 2-11	$ 738,619,782	$ 700,025,299

GOVERNMENT OF THE PROVINCE OF MANITOBA

CASH AND INVESTMENTS

As at March 31, 1991
(with comparative figures for March 31, 1990)

	1991	1990
SINKING FUNDS:		
Sinking Fund Investments held for Bonds issued by Crown Corporations, Agencies, Boards and Commissions:		
Manitoba Housing and Renewal Corporation	$ 12,385,656	$ 11,120,772
Manitoba Hydro-Electric Board	249,881,533	233,395,117
Manitoba Telephone System	44,328,478	46,961,240
University of Manitoba	9,719,612	9,668,842
	$ 316,315,279	$ 301,145,971
FUNDS ON DEPOSIT FOR INVESTMENT:		
Manitoba Public Insurance Corporation:		
British Columbia Hydro Bonds	$ 7,050,680	$ 7,050,680
Cities, Villages, Towns and Rural Municipalities	75,173,715	56,679,977
Government of Canada Bonds	34,555,000	29,912,500
Hospital Debentures	46,516,711	39,387,222
Manitoba Hydro-Electric Board Bonds	20,481,093	20,481,093
Manitoba Telephone System Bonds	20,837,103	20,837,103
Newfoundland Municipal Financing Corporation Bonds	1,250,000	1,250,000
Ontario Hydro Bonds	31,710,800	31,710,800
Province of Manitoba Debentures	100,325,580	88,335,670
Province of New Brunswick Debentures	4,591,000	4,591,000
Province of Quebec Debentures	6,942,850	6,942,850
Province of Saskatchewan Debentures	6,775,500	6,775,500
Quebec Hydro Bonds	27,231,500	27,231,500
School Division Debentures	144,898,387	112,606,569
	$ 528,339,919	$ 453,792,464
Public Service Group Insurance Funds:		
British Columbia Hydro Bonds	$ 545,586	$ 545,586
Government of Canada Bonds	17,883,565	18,980,137
Government of Canada Treasury Bills	-	10,840,370
Ontario Hydro Bonds	4,925,085	2,982,585
Province of Alberta Bonds	2,002,500	-
Province of British Coloumbia Bonds	2,037,500	-
	$ 27,394,236	$ 33,348,678
Northern Flood Agreement:		
Quebec Hydro Bonds	$ 550,000	$ 550,000
Winnipeg School Division Debentures	676,175	693,072
	$ 1,226,175	$ 1,243,072
	$ 556,960,330	$ 488,384,214
Miscellaneous Trust:		
Suitors' Money Act		
Cash in Canadian Imperial Bank of Commerce	$ 4,767,626	$ 4,305,415
	$ 878,043,235	$ 793,835,600

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND BALANCES

As at March 31, 1991
(with comparative figures for March 31, 1990 and displaying Receipts, Disbursements and Transfers for the Year Ended March 31, 1991)

	1990 Balance	Receipts/ Transfers	Disbursements/ Transfers	1991 Balance
SINKING FUNDS:				
Sinking Fund Contributions by Utilities and Others for own Direct Debt:				
Manitoba Housing and Renewal Corporation	$ 11,120,772	$ 8,931,096	$ 7,221,599	$ 12,830,269
Manitoba Hydro-Electric Board	233,395,117	261,822,760	245,336,344	249,881,533
Manitoba Telephone System	46,961,240	38,927,443	41,560,205	44,328,478
University of Manitoba	9,923,970	1,030,116	1,169,341	9,784,745
	$ 301,401,099	$ 310,711,415	$ 295,287,489	$ 316,825,025
FUNDS ON DEPOSIT FOR INVESTMENT:				
Churchill Forest Industries in Receivership	$ 276,636	$ -	$ -	$ 276,636
Civil Service Superannuation Fund	1,361,134	110,840,531	110,185,000	2,016,665
Centre Culturel Franco - Manitobain	600,000	284,340	884,340	-
Co-operative Promotion Board	52,000	-	-	52,000
Department of Education and Training - P. A. C. E.	11,068	1,364	1,500	10,932
Department of Energy and Mines - Niagara Capital	14,323	1,891	151	16,063
Department of Government Services - Fort Osborne Complex	556,111	37,285	593,396	-
Department of Health - Schizophrenic Research	31,281	3,121	34,402	-
Department of Justice	50,000	5,002	55,002	-
Department of Labour - Employment Standards	61,458	71,972	65,210	68,220
Employee Charitable Donations	934,797	860,039	732,563	1,062,273
Fires Prevention Fund	5,579,494	6,952,562	1,800,000	10,732,056
Fiscal Stabilization Fund	225,000,000	49,323,252	85,000,000	189,323,252
Hudson Bay Co. Archives	84,377	11,100	-	95,477
Leaf Rapids Town Properties Limited	700,452	349,578	330,000	720,030
Lynngold Resources Incorporated	1,781,331	142,325	1,746,905	176,751
Manitoba Arts Council	2,190,000	1,700,000	1,980,000	1,910,000
Manitoba Centennial Centre Corporation	317,675	1,738,577	1,932,897	123,355
Manitoba Centennial Foundation of the Future	19,713	1,970	-	21,683
Manitoba Crop Insurance Corporation	3,000,000	1,500,000	1,000,000	3,500,000
Manitoba Data Services Ltd.	12,414,520	36,769,432	41,878,377	7,305,575
Manitoba Development Corporation	500,000	15,719	515,719	-
Manitoba Development Corporation - Tourism Agreement	817,592	-	181,376	636,216
Tourism/85 Agreement	329,080	21,500	20,695	329,885
Pension Fund	179,191	5,744	184,935	-
Carried Forward	$ 256,862,233	$ 210,637,304	$ 249,122,468	$ 218,377,069

	1990 Balance	Receipts/ Transfers	Disbursements/ Transfers	1991 Balance
Brought Forward	$ 256,862,233	$ 210,637,304	$ 249,122,468	$ 218,377,069
Manitoba Health Services Debenture	757,021	2,357,969	2,400,323	714,667
Manitoba Health Services - Other	2,564,536	1,356,732	1,398,609	2,522,659
Manitoba Hog Producers Marketing Board	2,500,000	12,546,000	11,046,000	4,000,000
Manitoba Home Care Employees' Benefits Trust Fund	575,000	256,778	2,451	829,327
Manitoba Housing and Renewal Corporation	6,272,616	66,599,982	56,704,295	16,168,303
Manitoba Housing and Renewal Corporation - Insurance Fees	208,516	20,445	3,571	225,390
Manitoba Hydro-Electric Board	204,000,000	1,084,730,365	926,230,365	362,500,000
Manitoba Intercultural Council	137,264	93,169	160,433	70,000
Manitoba Law Foundation	330,000	1,805,959	1,845,959	290,000
Manitoba Lottery and Other Proceeds -				
Manitoba Lotteries Foundation	4,655,000	74,987,285	78,142,285	1,500,000
Manitoba Lotteries Fund	-	111,721,833	57,526,657	54,195,176
Amateur Sport	1,580,723	-	1,580,723	-
Culture, Heritage and Recreation	16,510,000	-	16,510,000	-
Community Places	15,700,000	-	15,700,000	-
Fitness Development	893,123	-	893,123	-
Multicultural Grants Advisory Council	300,000	-	300,000	-
Planning and Research	363,407	-	363,407	-
Manitoba Milk Producers' Marketing Board	840,000	112,250,000	110,900,000	2,190,000
Manitoba Mineral Resources Limited	13,202,400	15,467,283	9,760,000	18,909,683
Manitoba Mineral Resources Limited - Ruttan Mines	2,100,000	2,100,000	916,000	3,284,000
Manitoba Natural Resources - Land Development	51,492	6,870	-	58,362
Manitoba Public Insurance Corporation	632,928,393	256,478,261	193,940,915	695,465,739
Manitoba Developmental Centre	115,000	1,938	1,938	115,000
Manitoba Research Council	1,166,954	118,678	850,000	435,632
Manitoba Securities Commission	-	122,027	3,802	118,225
Manitoba Telephone System	10,180,800	271,975,769	278,956,569	3,200,000
Municipal Employees' Benefit Fund	2,823,576	12,684,773	4,702,123	10,806,226
Northern Affairs - Remote Communities	63,634	-	63,634	-
Northern Flood Agreement	1,433,624	141,687	229,867	1,345,444
Public Service Group Insurance Fund	38,186,247	9,088,151	1,384,351	45,890,047
Public Trustee	18,400,000	29,700,000	24,700,000	23,400,000
Rentalsman	118,733	21,176	19,838	120,071
Red River Community College- Student Building	38,635	5,112	-	43,747
Strategic Health Research	1,319,865	114,748	1,200,000	234,613
Teachers' Retirement Allowances Fund	58,540,000	146,080,000	151,370,000	53,250,000
Victims Assistance Fund	1,649,729	186,492	-	1,836,221
Welfare Administered Trust	115,000	-	-	115,000
Winnipeg Core Area Land Acquisition	-	2,181,787	404,328	1,777,459
Workers Compensation Board	84,998,108	192,479,474	172,993,266	104,484,316
	$ 1,382,481,629	$ 2,618,318,047	$ 2,372,327,300	$ 1,628,472,376

TRUST FUND FINANCIAL STATEMENTS

	1990 Balance	Receipts/ Transfers	Disbursements/ Transfers	1991 Balance
BANKING FACILITY ACCOUNTS:				
A Clean Rural Environment	$ 727,859	$ 47,060	$ 774,919	$ -
Manitoba Agricultural Credit Corporation	9,569,922	99,232,461	101,410,531	7,391,852
Manitoba Beef Commission	61,043	611,728	592,161	80,610
Manitoba Crop Insurance Corporation -				
General	3,818,498	89,679,874	85,856,291	7,642,081
Hail Insurance	1,481,984	4,738,248	5,341,797	878,435
Reinsurance Account	7,191,796	38,712,929	35,036,472	10,868,253
Manitoba Hazardous Waste				
Management Corporation	20,934	251,585	267,059	5,460
Manitoba Law Foundation	38	-	38	-
Manitoba Potash Corporation	40,648	62,075	93,471	9,252
Manitoba Research Council	52,370	5,675,733	5,710,873	17,230
Manitoba Text Book Bureau	3,007,855	8,002,646	8,280,904	2,729,597
Manitoba Trading Corporation	497,920	113,143	139,466	471,597
Manitoba Water Services Board	972,672	54,826,475	55,758,597	40,550
Minister of Rural Development	1,292,468	6,514,073	6,519,717	1,286,824
	$ 28,736,007	$ 308,468,030	$ 305,782,296	$ 31,421,741
OPERATING TRUSTS:				
Manitoba Lotteries Foundation -				
Amateur Sport	$ 2,384,045	$ -	$ 2,384,045	$ -
Community Places	3,553,655	-	3,553,655	-
Culture, Heritage and Recreation	1,887,236	-	1,887,236	-
Fitness Development	350,035	-	350,035	-
Multicultural Grants Advisory Council	30,101	-	30,101	-
Planning and Research	139,132	-	139,132	-
The Mining Community Reserve	13,535,425	3,167,388	662,338	16,040,475
Veterinary Science Scholarship Fund	8,032	8,660	12,000	4,692
	$ 21,887,661	$ 3,176,048	$ 9,018,542	$ 16,045,167
MISCELLANEOUS TRUSTS:				
Aluminum Can Recycling Program	$ 126	$ 222	$ -	$ 348
Amounts Collected on Behalf of				
Municipalities and Local Governments re:				
Permits and Leases	55,054	2,282,909	2,295,837	42,126
Association for Canadian Information				
in Government	-	9,150	8,630	520
Builders' Lien Act	1,838,575	8,573,624	7,341,783	3,070,416
Communities Economic Development Fund	1,828,820	1,100,000	725,000	2,203,820
Consumer Protection Act	60,157	82,225	63,872	78,510
Contractual Holdbacks	232,786	713,363	645,408	300,741
Employee Charitable Donations	1,344	993,813	994,464	693
Employee Parking Fees	1,196,162	1,151,876	1,720,720	627,318
Environmental Health	3,720	-	192	3,528
Fires Prevention Fund	2,091,649	6,489,687	8,555,473	25,863
Guarantee Deposits	2,363,435	1,057,674	1,304,990	2,116,119
Highway Traffic Act	4,500	-	-	4,500
International Student Program	13,350	126,278	101,343	38,285
Carried Forward	$ 9,689,678	$ 22,580,821	$ 23,757,712	$ 8,512,787

TRUST FUND FINANCIAL STATEMENTS

	1990 Balance	Receipts/ Transfers	Disbursements/ Transfers	1991 Balance
Brought Forward	$ 9,689,678	$ 22,580,821	$ 23,757,712	$ 8,512,787
Land Titles Assurance Fund	97,195	46,232	16,945	126,482
Law Reform Commission	10,450	207,954	171,489	46,915
Manitoba Health Services Commission	61,116,126	74,086,989	77,557,049	57,646,066
Manitoba Health Services Commission - Ambulance Service	8,223	16,206	10,931	13,498
Manitoba Hydro Provincial Sales Tax Rebate - Indian Bands	29,845	-	29,845	-
Manitoba Jobs Fund	2,124,600	45,000	934,782	1,234,818
Manitoba Public Insurance Corporation	501,943	353,879,796	353,768,426	613,313
Mortgage Insurance Fund	580,568	86,693	3,155	664,106
National Nursing Symposium	-	185,329	132,327	53,002
Oak Hammock Marsh Conservation	117	-	-	117
Private Vocational Schools Act Surety Claims	11,200	-	5,000	6,200
Public Schools Finance Board	19,746,850	11,417,401	19,743,900	11,420,351
Red River Community College - Student Union Building	1,055	-	-	1,055
School Divisions Reserve Fund	957,162	122,663	34,302	1,045,523
Sherridan Mines - Rehabilitation	275	-	275	-
Single Application for Vehicle Registration	850	8,299,638	8,255,560	44,928
Suitors' Money Act	4,305,415	5,816,029	5,353,818	4,767,626
Textbook Fees	1,099	-	1,099	-
Tripartite Stabilization Plan	248,975	2,184,345	2,318,372	114,948
Veterinary Services - Humane Inspection	58,862	23,049	23,681	58,230
Victims Assistance Fund	195,209	710,662	413,019	492,852
Victims Fine	72,498	338,055	45,960	364,593
Winnipeg Core Area Land	988,379	-	-	988,379
Winnipeg Core Area Land Acquisition	1,945,745	55,527	2,001,272	-
Other	699,718	635,345	673,026	662,037
	$ 103,392,037	$ 480,737,734	$ 495,251,945	$ 88,877,826
	$ 1,837,898,433	$ 3,721,411,274	$ 3,477,667,572	$ 2,081,642,135

GOVERNMENT OF THE PROVINCE OF MANITOBA

CUSTODIAL TRUST FUNDS HELD BY THE DEPARTMENT OF FINANCE AND OTHER GOVERNMENT DEPARTMENTS

As at March 31, 1991
(with comparative figures for March 31, 1990)

	Cash On Hand	Cash In Bank	Bonds and Other Securities	1991 Balance	1990 Balance
FINANCE:					
Civil Service Superannuation Board	$ –	$ –	$ 476,268,926	$ 476,268,926	$ 452,261,317
Cooperative, Consumer and Corporate Affairs	–	–	3,975,000	3,975,000	3,382,500
Cooperative Promotion Board	–	–	131,000	131,000	131,000
Energy and Mines	–	–	2,024,070	2,024,070	1,805,630
Finance	–	13,491	106,782	120,273	183,913
Health	–	–	23,411	23,411	23,411
Highways and Transportation	–	–	30,000	30,000	30,000
Justice	–	–	16,030	16,030	16,030
Manitoba Hospital Capital Financing Authority	–	–	2,665,500	2,665,500	3,061,500
Natural Resources	–	–	1,094,399	1,094,399	602,556
The Public Trustee	–	–	81,728,439	81,728,439	77,928,712
Workers Compensation Board	–	–	165,593,317	165,593,317	156,310,522
OTHER GOVERNMENT DEPARTMENTS:					
Agriculture	46	6,271	–	6,317	5,462
Cooperative, Consumer and Corporate Affairs	–	136,549	179,036	315,585	66,090
Education and Training	6,487	513,066	100,000	619,553	674,629
Family Services	1,579	149,555	–	151,134	135,884
Health	2,800	67,620	175,875	246,295	221,653
Housing	–	36,310	–	36,310	31,236
Industry, Trade and Tourism	–	35,547	–	35,547	58,110
Justice	–	1,725,555	1,128,942	2,854,497	2,619,097
Labour	–	121,037	–	121,037	167,182
Northern Affairs	50	563,092	–	563,142	308,865
	$ 10,962	$ 3,368,093	$ 735,240,727	$ 738,619,782	$ 700,025,299

NOTE: The Department of Finance also provides a safekeeping service for various departments, agencies, boards and commissions, including shares as well as other items which are not valued for inclusion in the above Custodial Trust Funds.

GOVERNMENT OF THE PROVINCE OF MANITOBA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1991

1. TRUST FUND ACCOUNTING POLICIES

A. The Trust Fund financial statements are prepared using the cash basis of accounting.

B. The gross accounting concept is not followed.

C. Bonds and other securities held as Custodial Trusts are shown at face or par value. All other Trust Fund investments, including Sinking Fund investments held for Crown corporations, agencies, boards and commissions, are shown at cost. Where an investment is in a foreign currency, it is restated at the rate of exchange in effect on March 31.

2. TRUST DIVISIONS

The Trust Fund is divided into two primary divisions:

A. ADMINISTERED TRUSTS
Those trusts where the Government has the responsibility for the administration and for investment of the trusts.

B. CUSTODIAL TRUSTS
Those trusts where the Government's responsibility is custodial in nature and there is little or no administrative responsibility. Generally, the responsibility for investment of Custodial Trusts is that of the depositor.

3. ADMINISTERED TRUSTS

Administered Trusts are divided into five categories:

A. SINKING FUNDS
Sinking fund contributions are deposited with the Minister of Finance by Crown corporations, agencies, boards and commissions in respect of their direct debt.

B. FUNDS ON DEPOSIT FOR INVESTMENT
Funds surplus to the immediate cash requirement of Crown corporations, agencies, boards and commissions are deposited for investment with the Minister of Finance.

Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rate in accordance with the terms of the investment.

C. BANKING FACILITY ACCOUNTS
These accounts are operated for those Crown corporation, agencies, boards and commissions who bank with the Minister of Finance.

D. OPERATING TRUST
Certain trusts are established where legislation or agreements require receipts and related disbursements to be kept separate from Government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts, Disbursements and Transfers is prepared for each of these trusts and is published in the OTHER FUNDS section of the Public Accounts.

E. MISCELLANEOUS TRUSTS
These trust accounts result from the sundry deposit of cash and/or securities with the Government.

Exhibit 10

Office of
the Provincial Auditor

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

We have audited the statement of financial position of the Fiscal Stabilization Fund of the Government of the Province of Manitoba as at March 31, 1991 and the statement of revenue and expenditure and fund balance for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The preferred shares of Repap Enterprises Inc., included in the statement of financial position at $77,638,700, are recorded at their future potential redemption value, as set out in note 3. The unrealized recovery from the future redemption of the preferred shares of Repap Enterprises Inc. recognizes that realization of these shares is dependent on the future profitability of Manfor Ltd., or its successor, and other conditions being fulfilled, well into the future. To the extent that these preferred shares are subject to realization through future redemption, these shares are not an asset of the kind that can be used at March 31, 1991 to fund program expenditure to assist in stabilizing the financial position of the Government.

In our opinion, except for the matter described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Fiscal Stabilization Fund of the Government of the Province of Manitoba as at March 31, 1991 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
July 12, 1991

F. H. Jackson, CA
Provincial Auditor

FISCAL STABILIZATION FUND
STATEMENT OF FINANCIAL POSITION

As at March 31, 1991
(with comparative figures for March 31, 1990)

	1991	1990
ASSETS		
Funds on Deposit with the Minister of Finance	$ 189,323,252	$ 225,000,000
Preferred Shares of Repap Enterprises Inc. (Notes 3 and 4)	77,638,700	77,638,700
	$ 266,961,952	$ 302,638,700
FUND BALANCE AND UNREALIZED RECOVERY		
Fund Balance	$ 189,323,252	$ 225,000,000
Unrealized Recovery From Future Redemption of Preferred Shares of Repap Enterprises Inc. (Notes 3 and 4)	77,638,700	77,638,700
	$ 266,961,952	$ 302,638,700

FISCAL STABILIZATION FUND
STATEMENT OF REVENUE AND EXPENDITURE AND FUND BALANCE

For the Year Ended March 31, 1991
(with comparative figures for the year ended March 31, 1990)

	1991	1990
REVENUE:		
Interest Earnings	$ 31,573,252	$ 25,000,000
Transfer from Consolidated Fund Revenue	17,750,000	-
	$ 49,323,252	$ 25,000,000
EXPENDITURE:		
Transfer to Consolidated Fund Revenue	$ 85,000,000	$ -
	$ (35,676,748)	$ 25,000,000
Fund Balance, beginning of year	225,000,000	200,000,000
Fund Balance, end of year	$ 189,323,252	$ 225,000,000

FISCAL STABILIZATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1991

1. Incorporation and Function

The Fiscal Stabilization Fund was established at March 31, 1989 under the authority of The Fiscal Stabilization Fund Act, which received Royal Assent on December 13, 1989. The purpose of the Fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in the Consolidated Fund in any fiscal year and shall credit to the Stabilization Fund any earnings from investment of the Stabilization Fund. All or part of the Fund balance can be transferred to the Consolidated Fund in accordance with the provisions of the Act.

2. Significant Accounting Policies

a) The Fund's financial statements have been prepared using the accrual basis of accounting.
b) The valuation of the investment in the preferred shares of Repap Enterprises Inc. is based on the potential redemption value per the Share Purchase Agreement, as set out in Note 3.
c) The unrealized recovery from future redemption of preferred shares of Repap Enterprises Inc. is established as an equal and offsetting amount to the valuation of the preferred shares in Repap Enterprises Inc.

3. Share Purchase Agreement

On May 4, 1989, the Government of the Province of Manitoba entered into a Share Purchase Agreement with Repap Pulp and Paper Inc. Under terms of the Agreement, the Government disposed of its interest in Manfor Ltd. to Repap Pulp and Paper Inc. for preferred shares in Repap Enterprises Inc. These shares were transferred to and recorded in the Fiscal Stabilization Fund as at March 31, 1990 at $77,638,700. The shares consist of 316,397 Series D Preferred Shares and 900,000 Series E Preferred Shares, each with a redemption price of $100. Repap Pulp and Paper Inc. has the right to re-acquire up to 450,000 of the Series E shares for $2.22 per share as a development incentive. The valuation of $77,638,700 reflects 316,397 Series D shares at $100, 450,000 Series E shares at $100 and 450,000 Series E shares at $2.22. Such realization through the redemption of these shares is dependent upon the occurrence of future events. Accordingly, the worth of these shares is not presently determinable. Consequently, an equal and offsetting entry in the amount of $77,638,700 is recorded as an unrealized recovery from future redemption of preferred shares of Repap Enterprises Inc.

The investment in Manfor Ltd. previously had been carried in the Government's Consolidated Fund at a nominal book value of $1 as the result of a valuation allowance applied against the investment. Recognition of revenue from the Repap Enterprises Inc. shares will be deferred until cash is received from the redemption of these shares. The unrealized recovery from redemption of Repap Enterprises Inc. shares account will be decreased and Fund balance account increased as cash is received from future redemptions. The redemption realization of these shares is dependent on future profitable operations of Manfor Ltd., or its successor, after May 1, 1989 and other conditions being fulfilled, the more significant of which are set out in Note 4.

4. Redemption of Shares

Under terms of the May 4, 1989 Share Purchase Agreement between the Government of the Province of Manitoba and Repap Pulp and Paper Inc., Repap Pulp and Paper Inc. may redeem the Series D and E Preferred Shares of Repap Enterprises Inc. The redemption is dependent on earnings of Manfor Ltd., or its successor, after May 1, 1989. Redemption of the Series D shares may occur over a period of five consecutive years commencing the later of December 31, 1994 or December 31 of the year in which the long-term debt for construction of Phases I and II of the plant redevelopment is reduced to 50% or less of the original amount. The timing of redemption is also

related to issuance of environmental permits for Phase I by June 30, 1989. Delays beyond that date correspondingly extend commencement and completion dates of both Phases I and II and, accordingly, the redemption dates. The environmental permits related to Phase I were issued January 26, 1990. Redemption of the Series E shares may commence once all the Series D shares have been redeemed and may occur over a period of ten consecutive years.

5. Transfer from Consolidated Fund Revenue

Manitoba Data Services was sold to STM Systems Corp. in August, 1990 and proceeds from the sale deposited in the Consolidated Fund. Net cash proceeds from the sale, amounting to $17,750,000, were subsequently transferred to the Stabilization Fund in accordance with the provisions of the Fiscal Stabilization Fund Act.